JPRS 77562

11 March 1981

West Europe Report

No. 1713

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CONTENTS

ESSO PRODUCES ENERGY ESTIMATE FOR NEXT 20 YEARS

Bonn DIE WELT in German 4 Feb 81 p 13

[Article by Jan Brech: "Share of Petroleum Will Continue To Decline Until the Year 2000"]

[Text] Hamburg--The demand for petroleum in the GDR will continue to decline. According to estimates by the Hamburg ESSO Corporation, the consumption of petroleum products will decline between 4 and 5 percent this year, following savings in 1980 that already amounted to about 10 percent. While ESSO expects that the consumption of gasoline will remain unchanged, the sale of light heating oil should decline by approximately 8 percent to between 36 and 38 million tons and heavy heating oil by approximately 10 percent to 15.7 million tons.

According to a study which has just been completed by ESSO, petroleum production in the FRG will decline during the next 20 years by at least 20 percent. In 1980, 129 million tons were consumed, by the year 2000 it will be reduced to 104 million tons.

With respect to gasoline, ESSO expects that consumption will peak during the mid-eighties at 24 million tons, subsequently it will settle somewhere between 18 and 19 million tons. On the other hand, the sale of diesel fuel will continue to increase perhaps till 1990, when it will stagnate somewhere near 14 million tons.

The most distinct possibilities for conservation are seen by ESSO in the areas of light and heavy heating oil. By increasing the use of natural gas and installing additional heat pumps, the consumption of light heating oil in households will be reduced from today's amount of 41.5 million tons to 24 million tons per year in 2000. ESSO predicts that the use of heavy heating oil will be reduced from about 20 million tons today to 7 million tons in 2000. Unchanged, however, will be the rise in demand for light products, above all, crude benzene for chemistry, liquid gas and airline fuel. Accordingly, the predicted quantity of 40 million tons for 2000 will constitute the largest block of all the needed petroleum products.

In contrast to the dwindling demand for oil, ESSO expects that until the year 2000 total primary energy consumption in the FRG will increase by approximately 30 percent to 510 million hard coal units. In the process, the contribution made by oil, which today is still 48 percent, will drop to 29 percent. A substitute will

be provided by hard coal. Its contribution will rise from its current 20 percent to 25 percent. Taken for granted, however, is the idea that the use of nuclear energy will increase from its current level of 4 percent to 16 percent. If delays for its expansion should continue, the gap in the supply of energy will have to be filled by hard coal, which carries the highest cost of production. At 17 percent, the share provided by natural gas will remain almost unchanged; solar energy and hydroelectric power will contribute a total of 17 percent.

At the same time, the U.S. EXXON concern presented astronomical figures for the world energy consumption until the year 2000. Accordingly, assuming an average economic growth of 3 percent, the world energy demand will rise by 65 percent to 15 billion hard coal units. Financing this need might post almost insoluble problems. In the opinion of ESSO, it is possible that in 20 years the real price of oil, which sets the stage for all other energy carriers as well, will be more than 50 percent higher than it is today, without taking into consideration rates of inflation.

According to calculations by EXXON, the need will be met in the following manner: 28 (today it is 26) percent by coal, 19 percent by natural gas, 10 (today it is 2) percent by regenerating and synthetic energy sources.

With 31 percent, the main burden in the year 2000 will still be placed on oil. The demand, however, which will then be approximately 3.6 billion tons annually, will only be met up to 56 percent when considering currently known deposits. The remaining demand for 1.6 billion tons of oil, which have not yet been discovered, will have to be met by finding new conventional oil wells and by the production of synthetic oil.

8991
CSO: 3103

PAPER CRITICIZES ENERGY SHORTAGES, POOR PLANNING

Reykjavik MORGUNBLADID in Icelandic 15 Feb 81 p 16

[Editorial: "Inertia in Energy Matters"]

[Text] Jakob Bjornsson, director of the National Energy Authority, write an article in this paper last week about the prospects of international energy matters and the eleventh energy conference that was held in Munich last year. Director Bjornsson reports on the conclusions of the energy conservation committee of this international conference and says among other things: "The energy future of the human race when viewed on a long-term basis is considered bright. But cheap oil and gas, the main energy resources of today, are almost exhausted and changing times are ahead when the energy system of the world must adapt to changed conditions. The problem is not a shortage of energy sources in the overall view. The problem is the changes themselves. The energy system of the world is slow and when it starts to change form it is very difficult to control. Inertia is the greatest problem. The greatest danger is that the adaptation to new conditions will not move fast enough and a limited imbalance between the supply and demand of energy will materialize. Because of the importance of energy in this day and age, such interferences, albeit limited, could cause serious problems: economic crises, social disturbances and even jeopardized peace and security.

There is a greater shortage of time than of energy resources in order to arrange necessary changes early enough."

This conclusion is noteworthy, and as strange as it may seem at first glance, it is easy to transpose it so that it describes exactly the situation in our energy matters here in Iceland. Of course we are not faced with the exhaustion of our energy resources, waterfalls and geothermal heat. We, however, happen to face a bright energy future in the long term. We must adjust to changed conditions to the extent that it is necessary to think about developing large-scale hydro-electric power plants outside the Thorsa area. We know on the other hand, that change requires detailed preparation, an agreement on the Blanda Hydro-electric Power Plant and an agreement about heavy industry in the Austurland or in Eyjafjordur in connection with the Fljtsdals Hydro-electric Power Plant. It is obvious from the position of the current minister of industry that inertia is the greatest problem. The conservative policy held by the communists in energy matters and in other fields causes abnormal inertia. It is now demonstrated in the intensity the minister of industry places on creating supplementary work for all kinds of "consultants" on behalf of his ministry.

The greatest danger is that a new power plant will start operating too late after the Hrauneyjafoss Plant starts producing electric power towards the end of this year. A limited imbalance between supply and demand has caused problems here during this winter and the last. The public has not had to suffer energy rationing because companies with heavy industries that are operating here have taken the blow. The Icelandic Aluminium Company in Straumsvik and the ferro-alloy plant in Grundartangi have reduced their production and therefore it has not been necessary to ration electricity for public consumption. Thereby it has been possible to avoid serious problems, economic crises and social disturbance in the country because of a general energy shortage. Now when the electric power system is connected all over the country such energy rationing for the public could easily have led to friction between individual districts. Actually, there is a trace of friction to be felt in discussions about who is to carry the cost of producing electric power with oil.

There is lack of time to develop Blanda or carry out development in Austurland, but no lack of energy sources, which gives reason to check on other means before those developments are undertaken. Fortunately we do have such a choice. That is the so-called Sultartanga hydro-electric plant in Thjorsa. If the decision were to be made this year to undertake that project, it would be possible to start operation there around 1985 and it would bridge the gap until the Fljtsdals hydro-electric power plant and the Blanda hydro-electric power plant projects were undertaken. It is imperative that inertia in energy matters be overcome. As Director Bjornsson points out, changeable times are ahead. Great amounts of money are and will be spent to find a new energy source, while it seems that an army of "consultants" is needed here in the country to deal with the question of whether the next hydro-electric power plant should be the one that would make it the easiest to supply energy. What is most ironic, however, is that the minister of industry is the greatest slow poke.

9583
CSO: 3111

CNEN'S COLOMBO ON ROLE OF NUCLEAR ENERGY FOR THE 1980'S

Rome NOTIZIARIO COMITATO NAZIONALE PER L'ENERGIA NUCLEARE in Italian Dec 80 pp 27-40

[Report by Prof Umberto Colombo, president of the CNEN (National Nuclear Energy Commission), to the ISVEIMER (Institute for the Economic Development of Southern Italy) --Naples, 31 October 1980: "The Role of Nuclear Energy in the Country's Energy Outlooks"]

[Excerpts] The Italian Energy Situation

We now come to consideration of the Italian situation, under the main headings.

Figure 2 shows the evolution of energy consumption, by source, from 1955 to 1979. It is important to note the enormous increase in energy consumption, which has multiplied by 5 in 25 years. In particular, there was a 2.1-percent increase in consumption in 1979 over 1978. In the same year, dependence on hydrocarbons amounted to 84.1 percent.

With per-capita energy consumption of 2.60 tep [tons of oil-equivalent], Italy is distinctly below the other principal industrialized countries of the EEC (3.65 tep in France; 4.64 tep in the FRG; 3.95 tep in the United Kingdom; 3.86 tep average for the EEC) and the OECD average (5.08 tep) (Figure 3).

Energy dependence is very high (82.7 percent in 1979), and in this regard also it is higher than that of the principal industrialized countries of the EEC (Table III).

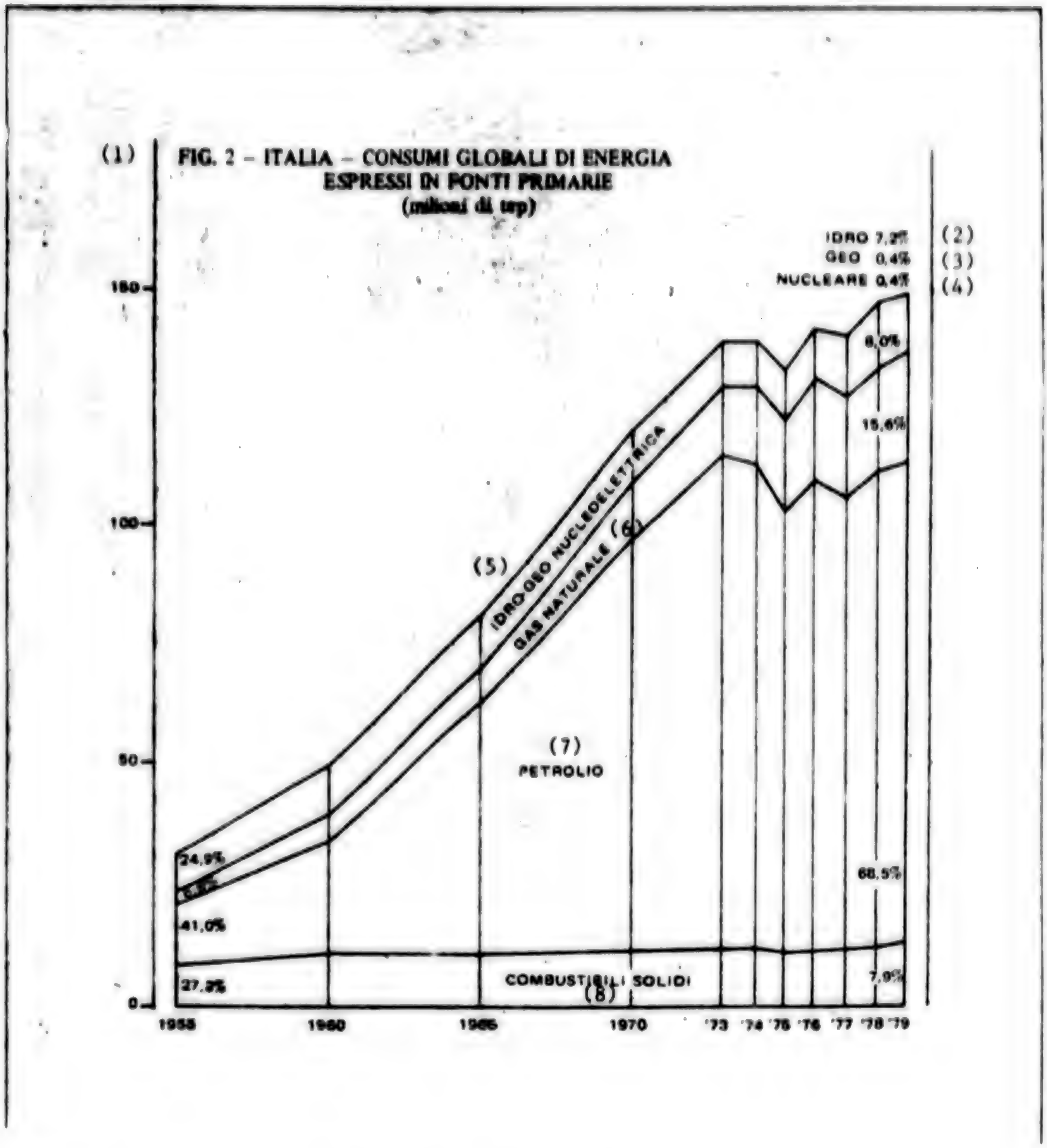
Oil, 98.7 percent of which is imported, comes in the proportion of 4/5 from the area of influence of OPEC (Figure 4).

The distribution of coal and natural-gas importation is better balanced and diversified, at least from a geopolitical point of view.

The energy situation summarized above for Italy has obviously significant connections with the economic situation.

Indeed:

--oil imports are on the way to reaching the record level of 20 trillion lire in 1980, as against 10 trillion lire in 1979;



Key:

1. Figure 2--Italy--Total Energy Consumption Expressed in Primary Sources (millions of tep)
2. Hydrological
3. Geological
4. Nuclear
5. Hydrological-geological-nuclear electric power
6. Natural gas
7. Oil
8. Solid fuels

--inflation, of which the increase in the prices of oil is a substantial component, creates a progressive loss of competitiveness of our products in foreign markets, which heightens the effect of oil importation on the deterioration of the trade balance.

The trade balance, indeed, closed with a deficit of 4.276 trillion lire in 1979 (Table IV), produced by the difference between the debits for importation of fuels (11.274 trillion lire, of which 10.627 billion was for oil) and the credits from all other exchanges (6.998 billion lire);

--in the first 8 months of 1980, the trade deficit totaled 11.182 trillion lire (about 10 times the deficit of 1.15 trillion lire registered in the same period of 1979).

Factors of this unfavorable situation are both the energy sector (importations to the value of 14.572 trillion, with 10.148 trillion of it for oil) and the difficult state of the other sectors as a whole (with their credit side limited to 432 billion lire). Among these latter, exportation is down not only for those that are going into crisis conditions in Italy and on the world scale (chemicals and metallurgy) but also among several sectors in which the national industry had a traditionally strong situation (textiles and transport).

The progressive deterioration of the situation is obvious from almost total compensation in 1978, when industry's credits annulled the energy and food debits, one arrives in 1980 at a debit that is practically equivalent to the entire energy account. The loss from energy must therefore be compensated for by non-trade categories in the balance of payments, and this is certainly a precarious situation, and along with everything else, it is getting worse.

In the long run, in such an energy situation, it could be difficult for the country to maintain exchange parity, but this would exert an inflationary thrust, which would inevitably be accompanied by a tendency to recession.

Under these conditions, energy-programming becomes more urgent, in a situation whose character, as compared with a few years ago, is objectively more difficult because:

--energy is quite a bit more expensive;

--consumption has gone up, albeit at a lower rate than in the past;

--many industrial sectors are in a state of crisis;

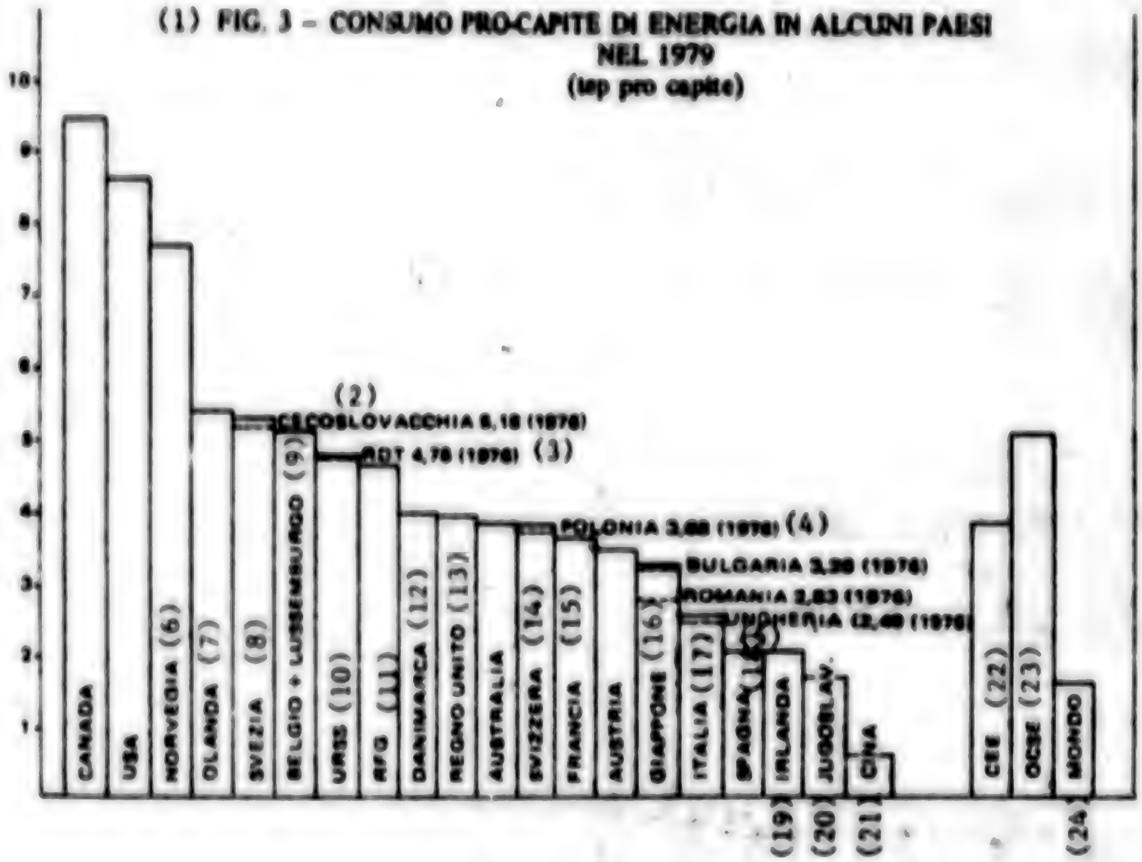
--the system of the big enterprises, public and private, is also in crisis;

--public agencies and the state administration have suffered a futher process of deterioration;

--several basic infrastructures and services that would be necessary for taking up the energy challenge adequately are lacking;

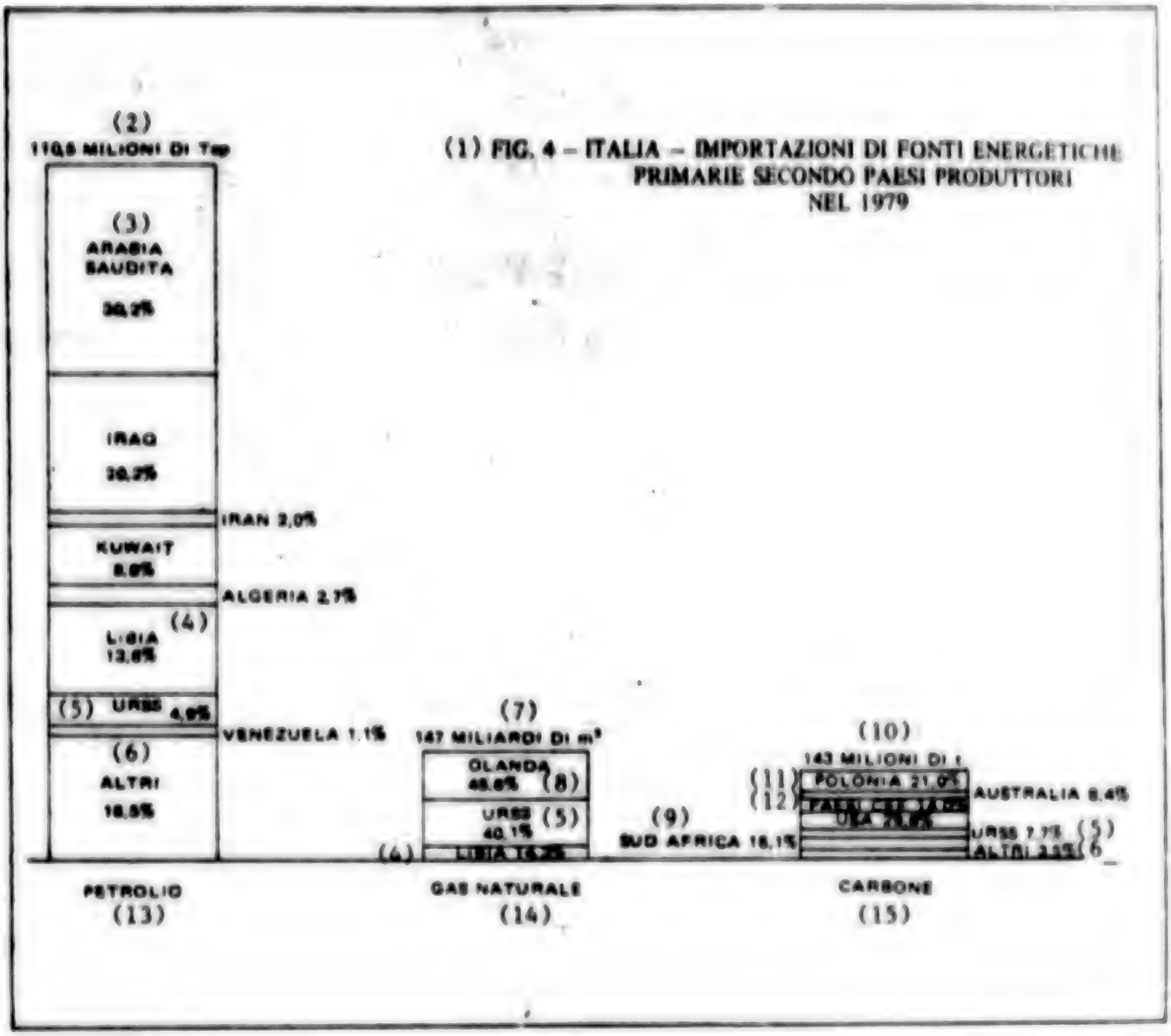
--the nuclear plan has not taken off yet; indeed, the discussion has gone through some particularly heated moments;

--the population is meagerly and poorly informed about the energy program;



Key:

1. Figure 3--Per-Capita Consumption of Energy in Several Countries in 1979 (tep per capita)
2. Czechoslovakia
3. GDR
4. Poland
5. Hungary
6. Norway
7. The Netherlands
8. Sweden
9. Belgium + Luxembourg
10. USSR
11. FRG
12. Denmark
13. United Kingdom
14. Switzerland
15. France
16. Japan
17. Italy
18. Spain
19. Ireland
20. Yugoslavia
21. China
22. EEC
23. OECD
24. World



(1) FIG. 4 – ITALIA – IMPORTAZIONI DI FONTI ENERGETICHE PRIMARIE SECONDO PAESI PRODUTTORI NEL 1979

Key:

1. Figure 4--Italy--Imports of Primary Energy Sources in 1979, by Producer Countries
2. Millions of tep
3. Saudi Arabia
4. Libya
5. USSR
6. Others
7. Billions of m^3
8. The Netherlands
9. South Africa
10. Millions of tons
11. Poland
12. EEC Countries
13. Oil
14. Natural gas
15. Coal

--the government and Parliament, gripped by troublesome short-term exigencies, have not yet found a way to deal with so complex an exigency that entails sacrifices and investments in the short term and advantages only in the relatively long run; the

messages coming from agencies, operators and experts have often been confused, divergent, and reflecting one-sided interests;

--the government is constrained to make use, for definition of an energy plan, of the contribution of the agencies, but in this way (perhaps correctly) the preparation time is necessarily long, since one has to carry out successive operations of priority evaluation, arbitration among the various sectors, comparative studies of feasibility and of internal coherence.

Table III--Italy - Evolution of Energy Dependence (%)

	1965	1973	1979
Oil	92.5	98.9	98.7
Natural Gas	--	11.3	51.6
Solid Fuels	79.1	81.8	91.2
Electrical Energy	--	1.9	8.8
Totals	72.0	81.8	82.7

Table IV--Italy - Trade Balance (billions of lire)

	1978	1979	January-August 1980
Fuels	-8,535	-11,274	-11,614
Foodstuffs	-4,864	- 4,920	- 3,746
Textiles-Clothing	+6,044	+ 7,372	+ 4,727
Metallurgy	+ 48	- 1,361	- 1,817
Mechanical Industry	+5,832	+ 6,427	+ 4,226
Transport	+1,904	+ 1,948	+ 446
Chemical Industry	-1,236	- 2,164	- 1,859
Miscellaneous Products	+ 444	- 754	- 1,545
Balance	- 363	- 4,276	-11,182

Table V--Italy - Hypotheses on Role of Primary Sources in 1985 and 1990

	1979		1985		1990	
	1,000's of tep	%	1,000's of tep	%	1,000's of tep	%
Natural Gas	23.0	15.6	28.9	16.6	37	18.5
Solid Fuel	11.7	7.9	17.7	10.2	36	18.0
(including, for production of electric power)	(3.5)		(6.7)		(24)	
Primary Electrical Energy						
--hydroelectric + geoelectric	11.3	7.6	10.5	6.0	11.6	5.8
--nuclear	0.6	0.4	2.0	1.2	10.0	5.0
Other Sources	--	--	0.5	0.3	2.0	1.0
Oil	101.5	68.5	114.4	65.7	103.4	51.7
Totals	148.1	100.0	174	100.0	200	100.0

Energy planning is very difficult even in countries that are better-equipped and better-used than we are to programming and monitoring processes, with better-prepared public administrations, with a habit of group work and with different relations between government and Parliament, majority and opposition, as well as having mass media that are more strongly committed to diffusing objective and technically correct information.

The Energy Outlooks in the Country

The Energy-Plan Project that the Ministry of Industry has prepared in recent months with the collaboration of the public energy enterprises, each in its area of competence, has been examined by the Permanent Technical Committee for Energy--which, as is known, is chaired by the minister of industry and is composed of the presidents of the energy enterprises and experts in the sector--and should shortly be brought to the attention of the political parties and the social parties concerned, so as to elicit their opinions and define the definitive text which the government will submit for examination by Parliament.

In the phase of meetings preliminary to production of the present Energy Plan draft, the technicians devoted much discussion to the forecasts of the evolution of energy demand between now and 1990 and 2000. It was finally agreed to establish as a basic hypothesis that consumption in 1990 will be kept down to 200 million tep (Table V). This figure is based on anticipation of a strong energy-savings policy and diverges considerably from the trends that continue to feel the effects of the strong rates of increase of energy consumption that were characteristic of the period before the 1973 crisis.

Assuming this level of consumption means increasing energy consumption, in the next decade, at the rate of 2.8 percent per year on the average, and this is compatible with an increase in income of betweeen 3.5 and 4 percent per year on the average, with elasticity values betweeen 0.8 and 0.7. At this point it is well to note that even if it is a preparatory element necessary to the formulation of an Energy Plan, the debate on the demand figures to be forecast represents, in this phase of the energy-problem picture, a "false problem." Indeed, if it is true that the unescapable No 1 problem that Italy faces is to reduce dependence on oil, in both relative and absolute terms, it is necessary to analyze accurately and realistically all the actions, aimed at savings and at substitution of other sources for oil, that could enable the country to achieve this objective. It is necessary to do so while keeping it clearly in mind that the energy transition which we have to make is an "uphill climb" and that this is a new fact in history vis-a-vis the substitutions of the past. This means that it makes no sense to assign to a single source, no matter which one it might be, the same hegemenous role that oil has held in our energy system in recent decades.

In other words, this line of thinking leads one to assign to oil the role of "residual" source--that is, a source that has to intervene to a greater or lesser degree depending on whether the savings and substitution actions are more or less successful. Thus it is a sterile exercise to carry on about whether we will consume 190, 200 or 220 million tep in 1990, and it could lead, once the quantities of oil that we resign ourselves to importing have been established, to residualizing a source which, like nuclear power, has quite a bit of difficulty in being accepted in a context of meager information and lack of up-to-date knowledge of the energy problems.

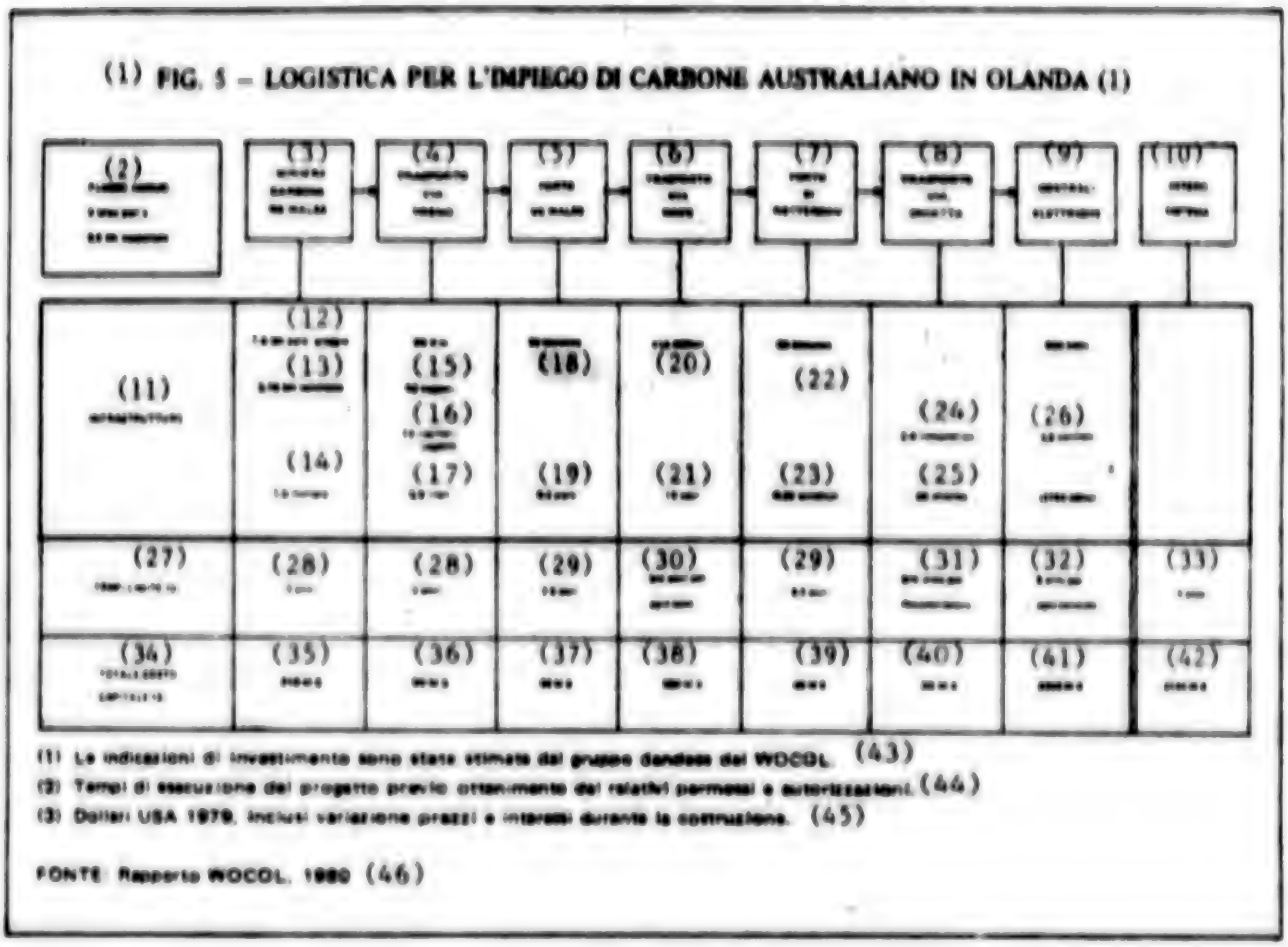
The contribution of oil, which amounts to about 100 million tons today, is expected to go to a maximum of 114 million tons in 1985 and then gradually descend to a figure very close to the present one as the investments in substitute sources (gas, coal, nuclear power, renewable sources) become productive. This nevertheless implies gigantic efforts. In particular, coal will have to go from 11 Mtep [millions of tons of oil-equivalent] to 36 Mtep (that is, from 17 million to 55 million effective tons). This means, however, that steam coal (the kind used to produce electricity) should see its contribution rise in a decade from 4.6 million tons to about 40 million tons in 1990, with multiplication by 8.5 of the present dimensions of the coal system. To achieve this objective, the ENEL [National Electric Power Agency] will have to convert to coal several of the present fuel-oil power plants and build many more new plants. Typically, a big coal-fired power plant with 4 sets of 600 MWe each requires, for its operation, about 6 million tons of high-quality (6,000 kcal/kg) steam coal per year. This is clearly an effort that is at the limit of our country's ability to carry out, considering that for coal also, rather difficult problems of power-plant siting are anticipated--problems that could make the authorization process longer and more arduous than expected.

One also has to take account of the fact that the management of such a heavy coal "system" presupposes that one has tackled and solved the financial, logistical and organizational problems in time and has made the relative commercial and technological choices for a certain number of "coal chains" (logistical chains for coal) of the type illustrated in Figure 5 relative to the use of 5 million tons of Australian coal in The Netherlands, or like the similar one relative to the use of an equal quantity of American coal in Japan (Figure 6).

As regards natural gas, it is forecast that its relative position, presently 15.8 percent (22.9 Mtep out of 147.8 Mtep), could climb to 18-19 percent--reaching, that is, 44-46 billion cubic meters per year (37 Mtep). It is taken as certain, then, that the doubling of the Algeria-Italy methane pipeline will be started, which will be able to make our country capable of having to depend on this important but single and not invulnerable connection for about 10 percent of its energy needs. This doubling is necessary because it is practically certain that we will be lacking the Dutch gas in 1990-91, and it will therefore be necessary to make other long-term contracts for supply from the areas that appear most promising from this point of view (USSR, North Sea, Nigeria).

I would like to stress the laborious character of the action required to get gas supplies from abroad. Even apart from the time needed for the negotiations (often long and marked by phases of uncertainty), the times needed for putting the contracts into effect are often on the order of 5 to 6 years. On the other hand, it is also true that the rigidity that ties a user to a producer represents--in substantial contrast with oil--a "technical" security of supply to a certain extent.

The growing penetration of natural gas into the Italian energy system requires the concomitant methanization of the Mezzogiorno (where only 20 percent of the gas used in Italy is consumed today), which can be facilitated by measures of various kinds, such as sinking-fund contributions, favorable-rate loans to the communes and their consortia, contribution to the ENI [National Hydrocarbons Agency] for building supply lines and lines for connecting with the more capillary systems at the communal level.



Key:

1. Figure 5--Logistic for Use of Australian Coal in the Netherlands
2. Annual Flow: 5 Mtec, equal to 5.6 Mt [million tons] transported
3. Coal Mine NS [New South] Wales
4. Transport by train
5. Port NS Wales
6. Transport by ship
7. Port of Rotterdam
8. Transport by barge
9. Electric power plants
10. Entire system
11. Infrastructures
12. 7.5 t raw coal
13. 3.75 t saleable
14. 1.5 mines
15. 42 cars
16. 72 (net)/car [as published]
17. 3.8 trains
18. 30 Mt per year
19. 0.2 port
20. 110,000 [illegible]
21. 13 ships
22. 25 Mt per year
23. 0.25 terminal
24. 2.8 tow-boats
25. 28 barges
26. 4.6 power plants
27. Maximum times
28. 3 years
29. 2.5 years
30. 3-4 years for each ship
31. 3-4 years per tow-boat
32. 5 years for each power plant
33. 5 years
34. Total capital cost
35. $310 million

[Key continued on following page]

[Key for Figure 5 - continued]

36. $50 million
37. $60 million
38. $350 million
39. $40 million
40. $34 million
41. $2.3 billion
42. $3.144 billion
43. The investment figures were estimated by the WOCOL support group
44. Project-execution times after obtaining of the relevant permits and authorizations
45. 1979 U.S. dollars, including variations of prices and interest during construction
46. Source: WOCOL Report, 1980

The methanization of the Mezzogiorno falls within the framework of selective action aimed at favoring--also in relation to a probable alinement of prices with that of crude oil--the use of natural gas for civilian purposes and in high-technology industrial sectors--areas in which its ease of capillary distribution and its characteristics as a raw-materials fuel are best taken advantage of.

A few words now on the subject of "renewable energy sources and energy savings."

I would like to state in advance that with regard to the renewable sources, one must not expect the same degree of effectiveness and incisiveness with which the problems with the other sources are tackled.

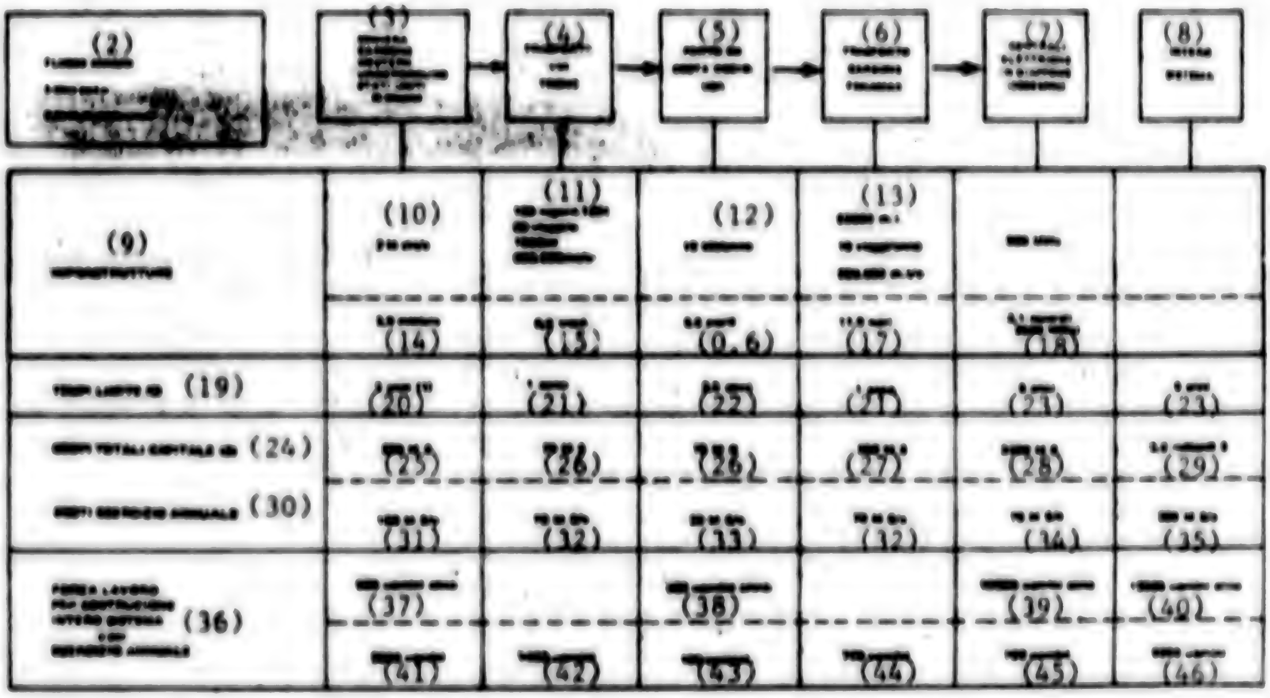
With regard to solar energy (indeed, other renewable energy sources such as tides, oceanic thermal gradients, unconventional geothermal gradients, hold little importance for us), it is necessary first of all to distinguish between the conventional technologies (solar panels, for example) and the more advanced ones (photovoltaic, high-temperature heliothermal, a new approach to biomasses). The advanced technologies are in a very dynamic phase today. In Italy, we are in a period of formation of public and private industrail initiatives, of firming-up of competencies, of identification of priorities. In particular, a significant role in stimulating technological research has been carried out by the CNR [National Research Council] through the Purpose-Directed Energy Project. The CNEN will work in this sector with the task of making a connection between the research phase proper, in which the CNR will prevalently exercise its function, and the demonstration and industrial-promotion phase, in direct collaboration with the agencies and industries involved in the productive phase.

An example in this regard is furnished by the Delphos power plant, a joint CNEN-ENEL initiative aimed at building a 1-MWe photovoltaic-type installation in Puglie. The next 3 years represent, for the advanced solar technologies, a pretakeoff, maturation phase, a phase of projects of bigger dimensions, a phase in which the CNEN, which should see its role, actually begun in 1979, as an industrial promoter and a public agency for technological development in the alternative-energies sector definitively recognized by Parliament, will play a decisive role in orienting and giving concrete form to industry's efforts in the most promising directions.

In the field of the more conventional solar technologies (panels), in Italy too we are in a "spontaneity" phase in which there have been many initiatives, only a few of which are serious and well-qualified, while on the demand side the market has

grown even before public incentives have been made available to favor the penetration of these instruments of energy-saving.

(1) **FIG. 6 – LOGISTICA PER L'IMPIEGO IN GIAPPONE DI CARBONE PROVENIENTE DAGLI STATI UNITI**



(1) Il tempo indicato presuppone che l'esplorazione della miniera sia stata precedentemente effettuata e si riferisce solamente alla prima messa in produzione. (47)

(2) Tempi di esecuzione del progetto previo ottenimento dei relativi permessi e autorizzazioni. (48)

(3) Dollari USA (1° gennaio 1979), inclusi variazione prezzi e interessi durante la costruzione. (49)

FONTE: Rapporto WOCOL, 1980. (50)

Key:

1. Figure 6--Logistic for Use of Coal from Japan in the United States
2. Annual Flow: 5 Mtec, equivalent to 5.75 million short tons transported
3. Western Underground Coal Mine, United States (5 Mtec/year)
4. Transport by train
5. Port on U.S. West Coast
6. PANAMAX Coal Transport
7. Electric Power Plants in Japan (2,500 MWe)
8. Entire System
9. Infrastructures
10. 2 million short tons per year
11. 105 cars-100 tons, 60 1,000-mile trips per year, 650,000 short tons per year
12. 10 million tons per year
13. 52,000 short tons, 10 trips per year, 520,000 short tons per year
14. 2.9 mines
15. 8.8 trains
16. 0.6 port
17. 11.0 ships
18. 3.1 power plants (2,500 MWe)
19. Maximum times
20. 3 years
21. 1 year
22. 2.5 years
23. 5 years
24. Total capital costs

[Key continued on following page]

[Key for Figure 6 - continued]

25. $300 million
26. $75 million
27. $350 million
28. $2.4 billion
29. $3.2 billion
30. Annual operating costs
31. $150 million per year
32. $70 million per year
33. $20 million per year
34. $75 million per year
35. $385 million per year
36. Labor force for construction of entire system and for annual operation
37. 900 persons per year
38. 400 persons per year
39. 12,000 persons per year
40. 13,300 persons per year
41. 3,000 persons
42. 1,400 persons
43. 100 persons
44. 700 persons
45. 750 persons
46. 5,950 persons
47. The time indicated presupposes that mine exploration has already been done and refers only to beginning of production
48. Project-execution times after obtaining of relevant permits and authorizations
49. U.S. dollars (at 1 January 1978), including variation of prices and interest during construction
50. Source: WOCOL Report, 1980

It is necessary to proceed quickly--and here too, the role of the CNEN as a research and industrial-promotion agency can be decisive--to more selective action, in which the state's incentives are concentrated on the solutions that are best-qualified and most effective from the technical-economic point of view.

In this second phase, approaches must be favored that are integrated at the level of technology (for example, solar panels plus heat pumps) and of system (panels plus passive solarization, hot water for domestic uses plus heat storage, etc.). It is necessary to avoid the danger of the present phase of disordered and sometimes ingenuous initiatives being followed by a general collapse of the sector rather than by a physiological shake-out process.

The contribution from the renewable energies (solar energy, in practice) will not reach 1 percent of coverage of consumption even within 10 years. But the efforts made today have great importance for the levels of penetration that may be achieved in the long and very long terms.

Among the most interesting subjects for development even in the medium term, I would like to say a little about biogas from agricultural (and perhaps urban) residues and about alternative fuels of the methanol and ethanol types, for which the problem is the suitability--not, as of now, demonstrated under Italy's conditions--of producing them for energy use from biomasses.

On the subject of energy-saving, it should be said that the consumption objectives set as of today already presuppose the achievement of very considerable results. For 1990, for example, the trend of energy demand, even if evaluated in cautious terms, appears to indicate consumption more than 10 percent higher than the 200 Mtep previously indicated as the objective.

Italian industry, like that of other countries, reacted to the energy crisis by realizing a large part of those savings that were achievable through "good housekeeping" requiring modest investments or managerial expedients. But now it is a question of activating those "structural" savings that are linked to a policy of industrial mod-

ernization and reconversion which the country must follow independently of the Energy Plan, as a condition of our industry's competitiveners and survival. This holds true for energy-saving in transport also, as regards innovation in automobile design.

In other words, the pursuit of strategic industrial-policy objectives (presence in the most advanced sectors: introduction of advanced technologies--microprocessors, biotechnologies--in mature sectors; choosing segments and product mixes with higher added value) must take into account the greater cost of the "energy" factor. On the other hand, it happens that these industrial-policy choices, in Italy as in other countries, are orienting the energy system toward greater penetration of electrical energy. I have purposely stressed this point in order to demonstrate that energy-saving in industry must be closely joined with industrial policy and that one must not yield to the temptation to consider it as something apart, as an additional and unrelated source of providence and incentives.

The Role of Nuclear Energy

The other most important substitute source that is capable meeting simultaneously the requirements of economy and security of supply is nuclear energy. As already stated, the fact that in Italy the plan for building nuclear power plants is not yet ready means that this source will be able to make a real contribution only as of the second half of the 1980's. A decision taken by the government today, with the consent of Parliament, to keep up the plant-construction commitment of which our industry is capable (starting each year a plant with two units of 1,000 MW power) leads to the substitution by nuclear energy, in 1990, of the equivalent of 10 million tep, with progressively greater substitution contributions (at the rate of 3 million tons of oil per year).

This dimension for a nuclear program that is not haphazard is a realistic one, not only--as stated--on the level of industrial capacities but also on the level of availability of financial resources and competence. It is also consistent with the commitments made by Italy at the international level, and will bring us in 1990 to the level of nuclear contribution that the other big countries have already reached today.

In the past decade the government tried unsuccessfully to launch nuclear programs that were decidedly ambitious. It is necessary to understand why such programs have not managed to take off if one wants to avoid the repetition of failure this time too, at a time that is so critical for our economy and for the energy situation.

First of all, I think I can assert that a few years ago, there was not such widespread understanding as there is today of the fact that the energy situation requires persistent and decisive action, and that we are not dealing with either a temporary problem or one that should be tackled by a search for original solutions, outside a concentrated general strategy with the other big countries of the West.

In the second place, the preceding plans lacked convincing and detailed analyses of the feasibility of the proposals. The problem of plant siting was distinctly underestimated, and more generally, the institutional and organizational aspects were considered only superficially. The attention devoted to energy information and to a systematic attempt to achieve consensus was likewise inadequate.

Emphasis was directed, more or less unconsciously, at the Italian citizen's lack of attention to the energy problem, avoiding the effort of action aimed at informing,

documenting and convincing, with the result that the space and opportunity available for debate have been occupied by a protesting minority, which has found a virgin territory and has managed to sway, albeit in an epidemic manner, a large part of that band of public opinion that is numerically limited but is very active in expressing its opinions and in grabbing the attention of the mass media.

I would now like to explain, briefly, why I maintain that the situation is at a turning-point today, with considerable probabilities of a positive evolution. Above all, the three public energy agencies that deal with nuclear energy (ENEL, CNEN, ENI) have found in the Permanent Technical Committee for Energy a place of encounter and systematic coordination. A more precise definition of roles, and forms of collaboration that earlier had an episodic character, have been achieved. This has been reflected also in the redefinition of certain international agreements, with improvements of the overall Italian position.

On the front of the nuclear electromechanical industry also, the fruits of this desire for rationalization of the sector have been harvested also, and the FIAT-Finmeccanica [Mechanical Engineering Finance Corporation] agreement has resulted in definition of the respective roles, concentrating in Finmeccanica the responsibility for systmes and the function of leader at the installations level. Even the problem of choice of nuclear-power system has been trimmed to a different size by the concentration of the systems-responsibility function in a single group, and this makes for more effective conditions of negotiation with the owners of the BWR [Boiling-Water Reactor] and PWR [Pressurized-Water Reactor] technologies. Within the manufacturing industry there has emerged a desire for coordination of efforts, so as to improve the competitiveness of the Italian industry, by avoiding scattering and duplications.

In the area of the fuel cycle, the collaboration between AGIP [National Italian Oil Company]-Nucleare and the CNEN is being intensified, especially on the problems of spent-fuel processing and management of wastes--problems which, although they do not at present concern the building of industrial installations, have fundamental significance for the purposes of our capacity to demonstrate to the political powers and to public opinion that the problem of nuclear power is being tackled in an overall manner and without neglecting the most troublesome aspects.

In Parliament circles, interest in the energy sector has grown and has reached a notable level of consideration of the problems in depth, with the desire to go ahead now with more organic logic than in the past to the actions that can make the public agencies capable of operating with greater effectiveness. This desire to overcome the episodic attitude of the past results, however--at least for the CNEN--in having to put off until a single final moment the definition of all the problems under consideration, with loss of the advantages of an approach that is more pragmatic and would take account of the necessity of not protracting the state of uncertainty, which has lasted too long.

The problem of risk and of nuclear safety has been tackled by the government, which promoted and carried out the Venice Conference of January 1980, preceded by the work of a Commission of Italian and foreign experts. By means of this Conference, the problem of safety has been substantially purged of its dramatic character, in the sense that no particular shortcomings exist in the control and reliability of the power plants operated in Italy. Furthermore, the Conference brought out, on the one hand, the political advisability of making the directorate for nuclear safety and

controls independent of the CNEN, and on the other hand, the need to strengthen, by means of decisive action that would produce its effects within a very few years, the state services and structures whose tasks are studies and geological, hydrological, environmental and health investigations and action.

The government has given formall assurance of its commitment to solution of these problem nodes, and the Energy Plan should be the place for clear operational directives.

For putting the Nuclear Program into practical effect, the most serious problem to be resolved is that of site identification and approval, which today are subject to law 393 of 1975. The CNEN has produced, as required by the law, a map of the areas in which sites for nuclear power plants might be identified. This is only the first step along the road, to arrive, after the detailed geotechnical and environmental investigations and after approval by the Regions, at specific identification and subsequent authorization of sites for building power plants, within these areas. Typically, a site could accomodate from two to four 1,000-MW units. If we do not want to be forced in fact to renounce the contribution of nuclear energy once and for all, it is necessary to reconcile the requirement to develop a general framework for site-selection with the requirement to proceed quickly to specific investigations of a limited number of areas that make it possible to get started right away with construction of the first power plants.

The present law (393) provides for incentives--in such-and-such an amount--to the communes where the power plants are located, in relation to the installed power. A bill (702) under consideration by Parliament also provides for incentives that are related to the energy effectively produced and that are distributed coherently in terms of time. It is necessary to go in this direction, but avoiding interpretation of the incentives as forms of monetarization of risk. They should be viewed as forms of compensation for the land-use restrictions imposed by the nuclear power plants and as forms of effective economic development.

However, the framework so far drawn, which has also been described from a feasibility point of view, indicates clearly that the effort to be carried out is a huge one on all levels: political, legislative, organizational, as well as technical and financial. The critical condition of feasibility is consensus in the political sphere on the objectives to be achieved and the instrumental interventions necessary. In the absence of broad consensus on the political level, the situation remains uncertain, the times needed for any action escape any kind of control, the structures dry up and deteriorate, to the extent that the plan loses all meaning and all strategic and economic appropriateness.

Anyone who has had, and continues to have, personal experience of contributing to the formulation and actuation of a long-term plan such as the nuclear plan has the duty to say clearly that the nature of the problems is characteristic more of the Italian system than of the peculiarity of this specific sector. In my opinion, it is illusory to believe that under the present conditions it is substantially easier and more immediate to take the approach of excessive conversion of the energy system to coal. Many of the problems are common ones, and solution of them facilitates the actuation of a better-balanced energy policy. If, though, one chooses not to tackle the real problems and concentrates instead on a solution that is apparently easier (because still too little-known), the real alternative will be the long-term continuation of

increasingly greater oil dependence, with all the risks that this entails as regards vulnerability and economic development.

Table VI--Estimation of the Cost of Production of Electrical Energy in Italy, France and Great Britain (in 1980 lire per kWh)

Costs	Nuclear			Coal			Fuel Oil		
	ENEL (LWR)	EDF (LWR)	CEGB* (AGR)**	ENEL	EDF	CEGB	ENEL	EDF	CEGB
Capital	10.7	13.4	11.6	5.9	10.4	6.3	4.5	8.8	29.8
Operation	2.8	5.0	1.8	1.8	5.6	1.8	1.4	5 0	1.4
Fuel	7.3	8.6	5.1	18.9	28.6	19.8	41.5	53.2	28.3
Subtotals	20.8	27.0	18.5	26.6	44.6	27.9	47.4	67.0	59.5
Increases for desulphuration	--	--	--	--	5.0	--	--	5.6	--
Totals	20.8	27.0	18.5	26.6	49.6	27.9	47.4	72.6	59.5
Costs as compared with nuclear power	1	1	1	1.3	1.8	1.5	2.3	2.7	3.2

* [Central Electricity Generating Board]
** [Advanced Gas-Cooled Reactor]

In discussing the topic of nuclear power, I have not stressed the subject of "comparative kWh costs for various sources." Table VI, which presents ENEL, Electricite de France, and Central Electricity Generating Board data, speaks for itself. Even if we prescind from the financial and operational hypotheses assumed, which are partly the cause of the differences among the three series of data, the message unequivocally expressed by this table is that of the very considerable advantageousness of electrical energy of nuclear origin as compared with that from oil and coal. This conclusion is even truer for us, since we do not have coal resources but do have a strong nuclear industry that enables us to keep within very reasonable limits the proportion of overseas payments for both construction and operation of nuclear power plants. In addition, we have available enriched uranium sufficient for starting up 2,000 MW per year until the middle of the 1990's.

The greater economy of nuclear energy, in addition to its validity in the strict sense, will also have a price-controlling effect on other production of electricity (especially from coal), with consequent benefits in the "fuels" category of the trade balance.

Lower average cost of electrical energy produced will then then bring about a reduced necessity of industrial restructuring, making it possible to maintain in our country --within limits that will be defined by social exigencies and the requirements of the gradual evolution of the industrial "mix"--some important industrial activities (aluminum, glass, electric-kiln products) which would otherwise emigrate to countries with more favorable conditions.

Finally, it should be pointed out that in the phase of construction of the installations, the investments in the nuclear sector are almost all to be spent within the country, as regards engineering, manufacturing and construction activities.

The proportion of disbursements for license costs, specialized technical input and purchases abroad of components which it is not possible or justifiable to build in Italy is estimated at 20 percent of the total cost of the power plant and could in future be reduced to something close to 10 percent.

To conclude, then, the choice of the nuclear source has an economic significance in addition to the strategic one that is coherent with the objective of diversification of sources, certainty of supply, and reduction of oil dependence. It should also be kept in mind that development in the nuclear sector exerts a pulling effect, as regards the design and manufacturing aspects, on other important advanced-technology sectors.

The government program recently presented to Parliament asserts peremptorily that the nuclear choice remains an obligatory one for a country that desires to maintain the present level of well-being and wants not only to solve the problem of employment development and of the Mezzogiorno but also to avoid aggravating the problems of industry with difficulties in meeting the demand for electrical energy.

The maximum push toward energy-saving and utilization of all sources that are available and can realistically be used as substitutes in order to reduce oil dependence--and therefore, utilization of nuclear energy--constitute the obligatory reference-points of energy strategy for any oil-dependent country and for Italy in particular.

11267
CSO: 3104

BRIEFS

WARNING ON GENERATOR USE--It is reported that the capacity of industrial generator banks has exceeded 500 megawatts because of electricity shortages. In results compiled from monthly bulletins of TEK (Turkish Electric Power Enterprise Directorate General), it is clear that the generators' yearly output is 2 billion kilowatt hours and that this output equates to half of the average yearly output of the 630-megawatt Keban power station. TEK officials whose views were solicited on this matter stated that the electricity produced by the generators is affording a negative contribution to the Turkish economy. One official, who asked to remain anonymous said, "Another pressure on the economy of increasing electricity shortages is the boosted demand on in-house generators in industrial enterprises. It is recognized that in recent years the capacity of generators functioning in this manner has exceeded 500 megawatts. Mindful that the Keban station has a 630-megawatt capacity, it is evident just how large the output of these generators is. An important but overlooked point regarding the electricity produced by these generators is that they run on liquid fuel. Moreover, bearing in mind that the generators are imported, their drain on foreign exchange constitutes a major burden given the present economic situation. For this and related reasons, although permission has been given to operate these types of generator banks, their use must be curtailed by giving priority to the operations of the enterprise concerned as well as to their contribution and productivity. [Text] [Istanbul CUMHURIYET in Turkish 17 Feb 81 pp 1, 7]

CSO: 4907

ELECTORAL SITUATION IN QUEBEC ANALYZED BY SOCIOLOGIST

Quebec LE SOLEIL in French 29 Jan 81 pp A 1, A 2

[Article by Maurice Pinard: "If the UN [Union Nationale] has nine percent, the PQ [Parti Quebecois] wins"]

[Text] Mr Rene Levesque's Parti Quebecois ought to count on the Union Nationale' receiving at least nine percent of the popular vote in the next general election in Quebec if he hopes to stay in power.

That is the threshold fixed by the University of McGill sociologist and specialist in public opinion polls, Mr Maurice Pinard, who had agreed to study, on behalf of Radio-Canada's public affairs broadcast "Present," the extent to which the vote in favor of the Union Nationale [UN] could determine the election outcome. Mr Pinard juggled with the results of the 1976 general election, the referendum, the by-elections and the most recent public opinion polls. The outcome of his studies was made public yesterday.

If the UN keeps nine percent of the popular vote, half of what it got in 1976, the Parti Quebecois [PQ] would win by a margin of ten seats, according to the sociologist, and by a very slender majority of about one percent only in the electoral districts. Moreover, the PQ Party would be supported by 43 percent of the votes cast and the Quebec Liberal Party would remain in the opposition even if it received 48 percent of the vote. In fact, the PQ would repeat the breakthrough made in 1966 by the unionist prime minister Mr Daniel Johnson who took over the office from Mr Jean Lesage with comparable voting percentages in the ballot box. Another similarity Mr Pinard considers is that the PQ would owe its victory to rural or semi-urban groups: the liberals could win 23 districts of the Ile Montreal against 11 for the PQ; the PQ would take over 35 in the province against 20 for the liberals. Mr Pinard, the public opinion polls expert who made the most accurate prediction of the results of last May's referendum, considers that the UN will perhaps not even be represented in the national assembly, or, at best, by its chief Mr Roch LaSalle.

Mr Pinard first found that in 1976 26 districts went to the PQ mainly because of the presence of a UN candidate in the race. One must subtract at the outset the five percent of the UN vote received in English-speaking circles of west Montreal which will go directly to the Liberal party. Furthermore the polls only

gave around four percent to the UN before Mr LaSalle's arrival. For purposes of his analysis Mr Pinard gives nine percent to the UN in a new breakthrough and 43 percent to the Quebec Party, beginning with a minimum 40.4 percent in the referendum and the slight recovery it is making in public esteem.

The sociologist transfers all the votes lost by the UN (nine percent) to the liberals and does the same with all the 1976 Creditiste votes to conclude with a percentage of 48 percent in support of the liberals in the votes cast in the next election.

Finally, Mr Pinard said that if Mr Levesque has the same information that he himself compiled when he predicts 70 districts for his party, he ought to launch the elections as soon as possible, without even convoking the National Assembly. The less one talks politics in Quebec, the more it will serve the PQ, let slip the university professor, who believes the PQ has everything to lose in a crystallization of public opinion.

In 1976 the PQ won 71 districts; the Liberal party, 26 and the UN 11. In the 1981 elections the number of districts will go from 110 to 122 but the outcome will depend on the voters in no more than 12 of them, perhaps six in the Montreal region and six others elsewhere in Quebec where the unionist vote would give the power to the PQ members or to the liberals.

9772
CSO: 3100

LEVESQUE INTERVIEWED ON PQ ELECTION STRATEGY

Quebec LE SOLEIL in French 29 Jan 81 p A 3

[Text] The PQ [Parti Quebecois] message will have a socio-economic tone. In the course of the next electoral campaign the PQ's message will center on Quebec's socio-economic development, asserted Mr Rene Levesque, prime minister of Quebec, yesterday and it is false to claim that the PQ has returned to its favorite themes of constitutional and linguistic struggles in the last few weeks.

Moreover the prime minister is ready to resume the constitutional negotiations with Ottawa cut off since last September but a new round of negotiations should not serve as an excuse to delay calling the general elections until the final limit of the autumn of 1981.

Mr Levesque tried yesterday to convey to a group of journalists assigned to the national assembly the image of an enthusiastic party chief as sure of himself as ever and even occasionally anti-establishment, on the eve of the long-awaited electoral battle. The prime minister joined the media representatives at the table reserved for them in the restaurant of the parliament building and received all the questions directed to him with the calm, sometimes amused assurance of a goal keeper holding the Vezina trophy.

Since 1978 Mr Levesque has not lunched so informally more than once a year at the journalists' table in the parliamentary gallery. Obviously planned in advance, his visit awakened all possible suspicions concerning the messages he wished to deliver.

The prime minister answered everyone, jumping from one subject to another without any restraint in his speech, downing dry martini, soup and omelette black with pepper, without even putting out his cigarette except to light another one, throughout the whole lunch.

According to the prime minister PQ thinking continues to bear on the economy, unemployment, inflation as well as social problems, housing and family, but the media looks into these matters less. He explained how several things had been accomplished, but it is always the same thing: no news is good news, you know, he observed. Moreover he affirmed that in his contacts with the people he had noted a continuing concern over the constitutional question and "that cannot be

put aside completely." Incidentally Mr Levesque expects "good news" from the British parliamentary "Select Committee's" report which has studied the implications of a unilateral repatriation of the constitution. He slipped in the comment that he was aware of the main lines of this report, which would be submitted by the end of the current week.

No Great Constitutional Urgency

Moreover the prime minister did not dismiss the possibility of resuming parliamentary debates before the expected date of 10 March but he declined to confirm the news in yesterday's LE SOLEIL to the effect that the budget would be presented as of 4 March. For the time being debates are still scheduled to resume 10 March but the special council of ministers on 12 and 13 February will have to take up that question, Mr Lesvesque indicated.

He also explained the common front of provinces opposing repatriation of the constitution had had the expected results, and even the next meeting of provincial prime ministers, probably 9 February, would not reach a final conclusion about the decisions they must make on election day. He has become convinced that Mr Trudeau's ship will not come in.

Positive Impression

The prime minister, finally, stresses the positive impression he says he now senses in the population regarding his party, and the new enthusiasm in the ministers' offices which has replaced the sullenness propagated by the media.

"People read too many newspapers," Mr Lesvesque observed in passing to justify his exaggerated accusation in December against Mr Guy Bertrand and the left wing elements of his party who wanted the PQ to unilaterally proclaim Quebec's independence, in response to Mr Trudeau. Mr Lesvesque explained that the newspapers gave the impression of a movement of some magnitude while that was not the case.

He also denied any dealings with Roch LaSalle, praised Mr Alfred Rouleau who is leaving the Desjardins movement, teased about the birth rate, difficult to influence in Quebec, and commented on Mr Reagan's taking power in the United States.

Half the omelette remained uneaten. A quick coffee, the tip. Ten meters from the table his bodyguard, who was keeping an eye on him, got up at the same time.

The message was conveyed: the prime minister is on the attack and will sell his skin dearly. He is rested, relaxed, scathing about the "Liberal party's draft program" or his Ottawa adversary, Pierre Trudeau, and he has kept his taste for politics. He is strengthening his image.

9772
CSO: 3100

FOREIGN MINISTER OLESEN: EC STAYS OUT OF SECURITY AREA

Copenhagen BERLINGSKE TIDENDE in Danish 17 Jan 81 p 6

[Article by Kjeld Olesen, Foreign Minister]

[Text] In INFORMATION of 28 November last year, Else Hammerich, member of the European Parliament and the Public Movement against EC, alleged that Gaston Thorn, the then Luxembourger EC Council Chairman, stated in the European Parliament that touching on security policy questions in the EC countries' political cooperation could not be avoided. In a letter to INFORMATION of 17 December, I informed Else Hammerich that she had quoted a too short summary of former Foreign Minister Thorn's statements, and that Thorn's statements clearly showed that neither within EC nor within political cooperation are we concerned with questions of military security policy. I even went to the trouble of quoting Gaston Thorn's statements to the European Parliament in full. Those are translated into Danish as follows:

"The treaties are what they are. The problems concerning defense plus military and security problems are not covered by these treaties."

This morning we have had a debate regarding the Madrid Conference (CSCE), and I have in this connection and on behalf of the Nine expressed that they supported the French proposal for a conference regarding disarmament in Europe, which shows--and I only mention it as an example--that we, naturally, from certain sides, not to mention from certain points of view, are led within the framework of political cooperation to touch also upon the security problems, but only when they represent a part of the whole picture, and not to treat the security problems or the military problems directly as such."

In my letter to INFORMATION I said that these statements clearly showed that neither within EC nor within political cooperative work are we concerned with military or security policy problems. They are treated, as far as Denmark and our allies are concerned, within NATO.

When Else Hammerich in a letter to BERLINGSKE TIDENDE on 13 January repeated her allegation that the then chairman of the EC admitted that security policy questions are also involved in the political cooperation between the EC countries, I can only say that Else Hammerich is making statements contrary to those who know better.

Else Hammerich in her letter of 13 January also mentions the speech which West Germany's Foreign Minister, Hans-Dietrich Genscher made at a party meeting in Stuttgart on 6 January regarding, among other things, a European Union. Since 1972, Denmark has, with the other EC countries, supported the idea of a European Union as a long-term goal without, however, having exactly defined what such a union should consist of. We see that EC cooperation will be expanded further by solving the practical problems that we are now facing.

9667
CSO: 8113/0594-B

FDP POSITION IN BERLIN ELECTION CAMPAIGN

Hamburg DER SPIEGEL in German 2 Feb 81 p 26

[Text] Berlin's liberals are going into the new elections, which have been brought forward, at great risk. With or without a statement on coalition, their survival in parliament is at stake.

In December of last year, a commentator for the BERLINER LIBERALE ZEITUNG suspected that there was probably more truth to rumors about "certain business deals in the Middle East" than in the "Tales from the Arabian Nights." He said that what had taken place there could still cause "nightmares for a few hundred nights less" for West Berlin's Free Democrats.

Perhaps, it now seems, for a few hundred nights more. The crisis in the Senat concerning the Eastern deals of Berlin building contractor Dietrich Garski has weakened the FDP to such an extent that its existence in parliament is in danger.

There was a strong suspicion that FDP Land Chairman and Senator for Economics Wolfgang Lueder had helped the ailing Garski concern with favorable decisions, because Garski, who left more than DM 100 million from the state treasury in the desert sand with his firm's bankruptcy, is an FDP member and has donated DM 27,000 to the party. Lueder had to resign his Senat office because of his political responsibility for the financial scandal, and a successor is still being sought for his party office.

Before the new electrions, set for 10 May, the Berlin FDP would like to erase its involvement in the Garski affair from everyone's mind and present itself as the indefatigable, fresh third power.

But the liberals are having difficulty even formulating new goals: their promises concern altogether old problems, unsolved in half a decade of social-liberal rule in city hall.

Still-chairman Lueder would like to "give precedence to saving and creating jobs," offer "adequate living space at socially defensible prices" and find long overdue "new concepts" for reconstruction and local transportation policies.

Lawyer Harald Loch, a member of the FDP Land party board who resigned in protest at the initial attempt to keep Garski's contributions secret, is demanding benefits for Berlin about which no decision can be made in Schoeneberg city hall with the

best will in the world--for example, "new initiatives" for "policies affecting Berlin and Germany for the purpose of including Berlin in the Bundesbahn Intercity train network" and an "energy link which will make generating stations in Berlin superfluous."

Whether fine words like these, which Berliners heard from every party before every election, will suffice is questionable. It seems extremely doubtful whether the electorate, which is highly allergic to both governing parties, will once again, as in 1979, give the Free Democrats a good 100,000 votes (8.1 percent).

Although a recent public opinion poll conducted by Allensbach saw the vote for liberals rising to as much as 9 percent, with enormous losses for the SPD (28 percent) and big gains by the CDU (49 percent), a shoving match between the FDP and the poorly organized Greens (1979: 3.7 percent) who appear on the "alternative list" cannot be entirely excluded.

Young voters particularly, who consider the established parties as equally decrepit, are inclining more strongly than 2 years ago to vote for an alternative following the most recent confrontations between the power of the state and squatters. According to Allensbach the Greens can expect 13 percent of the votes.

The Free Democrats' chances are being diminished additionally by the fact that, in all probability, the elections will turn into a showdown between the leading candidates Hans-Jochen Vogel and Richard von Weizsaecker.

The 2,500 FDP party members in Berlin have to decide whether they want to present themselves to the elector with a statement about coalition or to be open to all sides.

The Land party is divided about the correct tactics on precisely this point: while the majority, from the left to far beyond the center, is determined to continue the alliance with the Social Democrats that has just been renewed, members of the 11-man fraction are warning against any clear statement about coalition.

But the mood among the conservatives appears to be changing. Many can see hardly any other choice than to continue governing with the SPD or to join them in the opposition.

Even right-wing extremist Hermann Oxfort, who openly advocated a change in the coalition during the Senat crisis and tirelessly stated that the Social Democrats had proved their "inability to govern," thinks that his yellow-and-blue party is linked with the reds for better or for worse. The jointly elected Vogel-Brunner Senat, lawyer Oxfort conceded reluctantly, was a "strong precedent" for the election.

Soon, in 3 weeks, the Berlin FDP will have to decide who is to lead it in the future. Many liberals want the only Berlin Free Democrat in the Bundestag, Hans Guenther Hoppe, as the successor to Wolfgang Lueder, who has been tired of his office for quite some time ("Ten years in one job is enough"). But last weekend Hoppe was still affecting to refuse the charge.

Even a new helmsman will hardly smooth the internal conflicts in the social-liberal city hall coalition. The tendency to stand out at the expense of the other has for years been part of the tradition of this political marriage of expediency, in which real love seldom occurs.

"Living in an alliance with the FDP," summed up the SPD newspaper BERLINER STIMME in 1971, "means taking care of a Tom Thumb in your vest pocket and being bitten in the finger by way of thanks."

FDP leader Lueder was carping even last year: "If the Social Democrats were as full of ideas in their urban policies as they are in thinking about the best way to swindle their smaller partner," things would be "better for them in the fifth year of the coalition."

The next controversy is already taking shape. The new senator for economics, Guido Brunner, still looking for a strong profile in communal politics, was openly talking about the possibility of turning one of the city-owned operations back to private ownership--a taboo topic for many Social Democrats.

SPD leader Dietrich Stobbe Promptly kicked back, as it it were a matter of blocking a CDU advance: liberal ideas would necessarily lead to "cuts in the quality of life" and to a "loss in social well-being."

9581
CSO: 3103

PAPER SEES SPD/FDP COALITION IN HESSE IN DANGER

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 5 Feb 81 p 1

[Article by Bernd Erich Heptner: "Erosion in Wiesbaden"]

[Text] There are fashionable political words which create a terminology that expresses what many feel and, consequently, they are spreading like the plague. Not long ago it was the expression change of tendency, at the present time there is much talk about erosion. What is meant is the evidence of wear and tear, cracks, "corrosion" which the SPD/FDP alliance in Bonn is experiencing right now. The term erosion fits well, because the Bonn alliance is beginning to slide, aided by waters and streams that originate somewhere else. The commitment with which the party leadership in Bonn is attempting to solve Berlin's difficulties clearly indicates how much those on the Rhine are affected by distant events.

For some time, there has also been evidence of the process of erosion in Hesse, the second SPD/FDP coalition outside of Bonn which still remains in addition to the one in Berlin. At one time there were six coalitions of the same color. This process is even more remarkable since Bonn and Wiesbaden are joined in a manner--even more than is the case with Berlin, which can claim a special role--which makes it likely that one coalition can break bread with the other one; an erosion of the alliance in Bonn is affecting Wiesbaden--and the other way around.

How are things in Hesse? In recent years, the central FRG land had tackled projects that are also of national interest, a nuclear recycling plant, for instance, and the expansion of the Frankfurt international airport. Concerning both projects Minister President Boerner is meeting with widespread opposition from his party, which has grown to such an extent that parts of the SPD prefer to join the opposition with a clear conscience rather than continue governing covered with ecological sins. With respect to both projects, the Federal Government has been boxed in, and it is becoming more and more unpleasant the longer the realization of these projects is postponed. Because of intraparty difficulties, Boerner was looking for backing from Bonn.

He described the expansion of the airport as a policy that had significance not only for the region or the Land but also for the nation. With respect to the recycling plant, he emphasized not only the significance for energy and labor market policies, but he also pointed to the fact that they are a means to support the SPD/FDP government in Bonn and to grant credibility and the ability to act to its energy policy. This credibility is beginning to crack to the same degree as the

minister president is treading water. And he is treading water, although he is acting energetically. He does not tire of expressing his support for the waste disposal project or seeking support, particularly wherever there is still hope that he can convince his party friends.

Nevertheless, Boerner's verbal activities, which have even gained the recognition of the CDU opposition ("Boerner says many things that are right"), his insistence on those things that he considers necessary cannot hide the fact that there is hesitance to act, that the desire to gain time seems to prevail. Boerner is counting on the solidarization effect before elections, for instance, or on the gloomy economic situation which could bring many opponents in the party to their senses. But they are also playing for time in the hope that soon these unpleasant projects will take care of themselves: The airport expansion will become unnecessary because air traffic will decline, and a Hessian recycling plant will become superfluous because either Rhineland-Palatinate or Bavaria will win the competition for this waste disposal installation.

Popular means for delay are: the continuous waiting for new commission reports, voluminous criteria catalogs, a constant flow of new opinions from the Bonn government or--as is the case currently in Wiesbaden--a hearing. Boerner's conflict with his party and groups close to it goes beyond his steadfast support, causing careful shifts of position and leading to a Hessian hopscotch: one step forward and two steps backward.

Hesse's Free Democrats are slowly becoming impatient. They are noticing with growing concern that the minister president, to put it bluntly, is increasingly engaged in single combat within his party. The FDP is committed to those projects that are so difficult for the SPD to carry out because of the determined manner of Minister of Economics Karry. To please its voters, it must stick to what it considers "Liberal realpolitik." Wherever it is endangered it must fear that it will be caught up in the turbulences of the Hessian SPD. Consequently, in recent weeks it backed off one step. To be sure, alleged threats by Karry that the coalition would be in trouble if Boerner would waver in his policy were denied immediately. Nevertheless, a few days later FDP Chairman Gries made the undenied statement: The FDP is sticking with Minister President Boerner--"but we are not going to commit suicide either."

As a precaution, during the last few days the Wiesbaden coalition moved one topic into the foreground, on which not only the FDP and Boerner agree but, at least in principle, Boerner and his party as well: to increase the output when it comes to the "territory to be covered." Because, after all, during next year's provincial diet elections, they want to be able to point to things other than joint project ruins. Nevertheless, the continuing will to joint policies, which is maintained by both coalition partners--last but not least with a view toward Bonn--cannot hide the erosion in Wiesbaden.

8991
CSO: 3103

ANALYSIS OF STRUCTURAL FACTORS IN ECONOMY

West Berlin DIW WOCHENBERICHT in German 5 Feb 81 pp 63-67

/Text/ In 1977 the Federal Government requested the five major independent economics research institutes to draft a report on the structural changes in the Federal Republic of Germany's national economy.

The first preliminary reports were submitted in 1979. At the end of 1980 the institutes concluded their respective reports and handed them over to the client. The following theses provide information on the structural change as described in the first completed DIW structure report. The full report will be published in the contributions to structure research, No 61.

Preamble

Structural change is manifested in many forms and cannot be explained monocausally. Against this background it makes little sense to abridge by condensation the variety of the phenomena described in the structure report. Instead the following is intended to offer some these on structural change, which may serve as guidelines for the apprciation of the completed structure report. We neither claim to deal with all topics of that report nor assert that the report itself provides exhaustive explanations.

Structural Change

1. We see many indications that a considerable structural change has taken place in the 1960's and 1970's. Although some of the 1970's trends were more emphatic, this structural change was not determined by any basically new factors. What did shift was the constellation of these factors and the reactive adjustment of the economy. This had an impact on growth conditions.

Exogenous Determinants

2. Important determinants of structural change, amenable to political influence to only a limited extent, were to be found in foreign trade, technological development and the population.

The progressive technological development and international division of labor furnished productivity impulses for the Federal Republic of Germany. On balance, therefore, the favorable impact of foreign trade tended to shrink in the course of time. In the 1960's these employment reducing trends were disguised by strong overall growth. As a result the decline in the domestic manpower potential was accompanied by an increase in foreign workers. In the second half of the 1970's, on the other hand, the employment problem which had arisen in 1974/1975 was exacerbated by the increase in the manpower potential. Consequently all three factors--technology, international division of labor and manpower potential--operated on the same lines.

Growth Impulses

3. Additional growth impulses are required th compensate the effect on employment caused by structural change. In the 1970's these were present to only a limited extent.

Foreign Trade

4. The German economy's involvement in world trade grew stronger in the 1960's and 1970's, though since the worldwide 1974/1975 recession not at the former rate. If we take into account the total output due (directly and indirectly) to export considerations, the export dependence of the German economy rose from 16 percent in 1962 to 23 percent in 1976. In 1962 two industries, in 1972 four and in 1976 nine recorded total export quotas in excess of 40 percent.

5. When we dissect the development of German exports to yield up structural and competitive elements, the 1960's are largely characterized by a favorable structural element. The 1970's for their part featured an adverse competitive element, largely due to cyclical influences. The competitive position of exports did, however, improve quite substantially in the late 1970's. Exports of machine construction products, textiles, chemicals and nonferrous metals still enjoy competitive advantages. Admittedly the competitive element was regressive in some groups of goods which weigh heavily with respect to volume. These include road vehicles, electrical engineering products, office machines and data processing devices, precision and optical products.

6. When we analyze the production factors to be claimed as assets for German exports, the labor factor continues to predominate. Noticeable, though, is a definite shift to more highly skilled labor, that is in direction of the "human capital." Research and development assume an increasing importance for German exports.

7. The growth of imports is due largely to the rise in the importation of high quality industrial products. Imports of road vehicles, electrical engineering products, clothing and chemicals have increased well above the average and at a much greater rate than the corresponding exports. Imports of iron and steel, machine construction products, textiles and nonferrous metals grew at below average rates.

8. When we compare the development of the 1960's and 1970's, imports of goods in the first named groups continued to rise above the average in the 1970's. From the aspect of imports we thus see another indication of the exacerbation of competition.

Of course, when discussing imports, we should not overestimate the problems raised by competition. Only in the consumer goods industries is the elasticity of prices greater than that of demand. In the final analysis the development of domestic production was decisive for the development of imports.

Developing Countries

9. Public discussion is concerned very particularly with our trade with the developing countries. In the 1960's the situation of the developing countries had tended to deteriorate. Now it has improved somewhat, at least against the background of rising raw material prices. Of course the oil exporting countries derived the maximum profit therefrom. Trade with the developing countries provides substantial support for German exports, especially in regard to high quality industrial products. Just under 25 percent of goods exports are shipped to the developing countries. Imports are dominated by two key items: Firstly raw material imports which involve even backward developing countries. Secondly finished goods imports which in fact compete with German industry but involve only a few threshold countries.

10. The employment effects of trade with the developing countries are usually overestimated. If we analyze German imports of semifinished and finished goods from the developing countries, we find that they correspond to 0.8 percent of employment in 1962, 1.1 percent in 1972 and 1.5 percent in 1976. Admittedly this employment impact is highly concentrated, especially on the clothing and leather industries. Demonstrably more than 90 percent of the manpower freed by imports is required by the production of exports to the developing countries. No doubt trade with the developing countries does exert some pressure on structural adjustment.

Technological Development

11. Technological development is reflected on the one hand in a continuing high rate of productivity growth, on the other in the frequently occurring reduction in additional investment needs per product unit.

12. When we consider business firms exclusive of those concerned with housing rentals, sectional structural changes have had a favorable effect on productivity ever since the early 1960's. By contrast increasingly adverse effects on the productivity potential have arisen from changes in the age structure of fixed assets. In other words: Productivity would have risen even more if the age structure of fixed assets had not worsened. In part the rise in productivity may indeed be explained by the rise in the standard of qualification of the labor force.

13. In the 1960's the ratio of fixed asset formation to national product kept on rising; in the 1970's this rise slackened. In some industries the marginal ratio of fixed asset formation to national product is in fact declining. For a specific increase in the production potential of those industries reduced investments are required. This trend is encouraged especially by the development of new production techniques such as the introduction of microelectronics. These effects are only in part compensated by factors tending in the opposite direction; they include environmental control, improved working conditions and energy conservation. To be taken into consideration, though, is the fact that energy conservation was relatively unimportant in the period under review. In future we may well observe a shift.

14. Given the final demand, investment demand therefore tends to decline in the course of time.

Investments

15. The capital intensity of investments in new plants is more than 1.5 times greater than that of the asset stock. Against this background it is obvious that the ratio of wage and capital costs takes a relatively insignificant part in all empirical reviews of investment determinants. Insofar we cannot expect much from the compensating mechanism via relative factor prices.

16. Reduced investment demand per product unit results in less demand for investments. In such a case any permanent expansion of investments is possible only if sales expectations are high. In this connection the success potential of wages restraint tends to be overestimated. We cannot expect such restraint to trigger investments; in fact we must assume investments to be omitted, which would be urgently needed from the aspect of growh.

17. The profit potential is one of the determinants of investments. It has not changed a great deal in the course of the 1960's and 1970's. Ademittedly, two periods of sag were recorded, in 1967/1968 and in 1974/1977. We cannot exclude the possibility that the decline in profits in the latter priod--lasting much longer than the first--contributed to the weakness of investments at that time. Since 1978 profits have regained a level corresponding to that of the early 1970's.

18. In the 1960's private investment largely carried the growth process. The investment weakness in the second half of the 1970's resulted in the obsolescence of the asset stock and, therefore, the loss of growth.

Population

19. Until the mid-1970's demographic trends helped cushion the consequences of structural change on employment. Since 1976 the influx of manpower to the labor market has exacerbated the employment problems involved in structural change.

20. Not to be proven so far is any real impact of demographic trends on the level of private consumption, even though demography-related shifts have been recorded within the total.

Decline in the Growth Impulses

21. Adjustment to the structural change was facilitated up to the mid-1970's by several growth impulses which have since declined:

-- The general rise in government activities which claimed a larger proportion of the national product for the state, in other words additional demand as well as additional employment.

-- The expansion and modernization of the production potential, and

-- Housing construction provided important impulses which tended to slacken off in the mid-1970's.

22. A crucial growth impetus in the late 1960's and the first half of the 1970's was provided by the expansion of government activities. These arose from the fact that, at a time of rising prosperity, the public demand structure shifted toward government services. This assumption is confirmed by the result of various sample investigations and the respective election outcomes.

23. A considerable financial gap arose in the budget due to the 1974/1975 recession. This development was caused only by the intention to ease the burden on private budgets by way of the reform of children's allowance and, to a lesser extent, by the tax reforms enacted at that time. The overwhelming portion of the financial gap was due to the business situation. Admittedly, as a consequence of the financial gap the growth of expenditure also slackened, but it is more than doubtful whether we may therefore conclude that our citizens standard conceptions of the extent of government operations have changed as a result.

24. The 1974/1975 recession was caused mainly by economic policy. The greatest responsibility lies with monetary policy, but financial and wages policy also must be mentioned as factors.

25. The expansion of public expenditure proceeded in a manner which was bound to result in the weakening of growth impulses in the medium range also: The proportion of investment expenditure declined. The burden placed on the state budget by largely fixed current expenditures also restricted the development potential of future investive spending. And yet growth impulses are provided precisely by such investments--interpreting the term investments rather widely. Investments in "human capital," for example, may be taken into account. It is true that the growth impulses provided thereby take effect only in the long run.

State and Structural Change

26. The state affects structural change in several ways: Unintential side effects arise from public purchases for the provision of public services as well as from economic policy (fiscal, monetary and distributive policy). Structural political intervention aims directly at the rate and direction of the structural change.

27. The result is a series of target conflicts, when public investments act as no more than stopgaps. From the standpoint of incentives the placement of public construction contracts has often turned out to be a mistake. In the 1974/1975 recession, for example, construction capacities were scaled down, which would later have been needed once again.

28. The future investment program was designed to counteract the decline in public investments. It developed new fields of growth by additional public and private investment. The growth in employment recorded in 1978-1980 is in fact due to this program which was a step in the right direction. As the strategy adopted with the program was unfortunately abandoned, a decline in public investment was registered, which is likely to cancel out to some extent the earlier employment successes. Moreover, the growth impulses produced by the future investment program could have been greater if this program had been spread wider and better coordinated with existing capacities. As it is some of the effects of the program fizzled out in price increases.

Housing Policy

29. Intervention in the housing sector may be justified from the aspect of supply and distribution only if they aim to increase supplies in those sectors which still register large deficits. That is the case, among others, with regard to adequately large rentals for low income groups, especially in conurbations. The officially encouraged conversion of old rented accommodation to condominiums actually withdraws some rentals from the housing market.

30. Housing policy also and at all times needs to include urban, environmental and energy policies. Significant growth impulses for the national economy may be obtained precisely from this overall sector. It is therefore vital to encourage a policy promoting the development of such growth interests.

31. This kind of integrated policy should be designed for the long term in order to ensure that the required capacities be built up and maintained.

Energy Policy

32. Energy supply is an important prerequisite for the further development of the national economy on the one hand. On the other it provides important growth impulses--reinforced by the compelling need to replace oil. Even if we succeed in substituting other energy sources for some oil we will continue at least in the medium term to be highly dependent on imports in this field. It is all the more urgent to tackle and increase the existing energy conservation potential. The most notable items here are the sector of heat-power coupling and distant heat supply in conurbations. The investment needs in this area not only boast a very considerable volume, they must also be planned for the very long term. At the very least they must have the full backing of government energy policies.

Earlier experiences in regard to conservation have been entirely satisfactory. The investment volume benefiting energy conservation is still relatively low. Totally lacking as yet are any significant investments in the distant heating sector.

33. Energy and heat supply by fossile fuels must include the replacement of oil by coal. Against this background the initially debatable subsidies for coal mining have ultimately turned out to be justified. In this sector, though, we need more than long-range government backing of domestic hard coal mining; necessary also is the conclusion of long-term delivery contracts for imported coal. Arising at the same time is the complementary need for investments in the infrastructure involved (ports, transportation, coal-fired power plants).

Transportation Policy

34. Helped by subsidies to the Federal Railways and the public transport system, the public transportation supply for the benefit of the regions and all strata of the population has been assured. This policy should be maintained, especially because it keeps open the option to slow down the expansion of individual transportation, and this might become urgently necessary for energy and environmental reasons, especially in conurbations.

Agricultural Policy

35. Interventions in the agricultural sector are a different matter altogether. In view of the failure to achieve the allocation target--demonstrated in constant overproduction--such measures can be justified only from the aspect of distribution. However, precisely these aspects have not been sufficiently considered. As a result subsidies do not achieve an even income distribution within farming. They end in transfers which cannot be justified from the distributive aspec . A transformation of farm subsidies is imperative from the standpoint of allocations and distribution; at the same time such a change might permit a significant reduction in the expenditure of public resources.

Technology Policy

36. Though the competitive situation of the German national economy on international markets remains strong, some deterioration cannot be disregarded. So far sectional intervention has tended more often to obstruct rather than encourage structural change. Here we need a shift in direction of a purposeful technology policy.

37. Technology policy must begin on the one hand in obvious bottleneck areas, on the other tackle the general encouragement of technical innovation. We therefore require a mixed strategy. In recent years technology policy has corresponded to this requirement, though improvements are needed in some areas.

38. The orientation of research and technology policy to bottlenecks rests on the appreciation that there are many fields of growth worthy of encouragement, which represent prerequisites for the improvement of sales in the economy and the conservation of resources and the environment. In many instances these will complement private investments.

39. Though other countries (such as France and Japan) have had satisfactory experiences with interventionist innovation policies, the Federal Republic's innovation policy should not rely only on the innovation priorities of the administration. Within the framework of a mixed strategy it will rather be necessary also to subsidize private enterprise spending on research and development. The first steps in that direction were taken by the grant of subsidies for personnel costs. As yet, however, we are not able to arrive at firm conclusions about the success of these measures.

11698
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EQUIPMENT, MISSIONS OF ALAT REGIMENTS REVIEWED

Paris TERRE INFORMATION in French Jan 81 p 13

[Text] Under ALAT [Light Army Aviation] command under the corps (COMALCA 1), with headquarters at Metz, the three formations of I Corps light army aviation are based respectively as follows: 1st RHC (Attack Helicopter Regiment) at Phalsbourg; 3rd RHC at Etain; 11th GHL (Light Helicopter Group) at Essey-les-Nancy. Their employment is centrally controlled on the army corps echelon, the only echelon capable of offering them maneuvering room in keeping with the capabilities of the modern equipment they use.

The Light Attack Helicopter Regiment

With 50 officers, 300 NCOs, and 400 EM, this regiment is equipped with 72 helicopters, organized in seven attack squadrons.

Two light helicopter squadrons with 10 helicopters each make it possible to scout the enemy over longer distances; it takes a squadron about an hour to cover the forward elements, the speed, and the directions of movement of a major enemy mechanized unit. The helicopters (SA 341 Gazelle) are equipped with a stabilized magnifying optical sight which facilitates observation.

Three AT helicopter squadrons (30 AT helicopters) express the regiment's real mission: engaging enemy armored vehicles. The 40 missiles in an AT helicopter squadron with 10 helicopters committed thus enable it to take on an entire [enemy] tank battalion and to neutralize it. The Alouette III SS11 helicopters are being gradually replaced with SA 342 HOT (range of HOT [upper-subsonic, optically remote-controlled from tube] is 4,000 m).

Two HM (multirole) helicopter squadrons with 11 helicopters [each]. Their multipurpose capability enables them to participate in all kinds of operations, such as reconnaissance (delivering light equipment), AT action (operations by MILAN sections or Engineer teams), logistics (evacuation, resupply, equipment transportation). To give the reader an idea, the Pumas of a regiment can, without having to be resupplied, carry 500 equipped men for a distance of 100 km in two trips.

The RHC, possibly reinforced by infantry units, can operate autonomously as an "airmobile group." Its equipment can also be made available to a division for a given phase in the operations; the squadron remains a unit that cannot be broken up.

Light Helicopter Group

Three light helicopter squadrons (or 30 helicopters) furthermore are available to I Corps for its requirements in terms of command support (liaison, reconnaissance) and weapons support (Quartermaster: reconnaissance and equipment routes; Engineers: reconnaissance of crossing points; Artillery: reconnaissance of positions and fire adjustment, etc.).

Importance of Logistic Support

While modern helicopters are reliable, they consume lots of fuel and require careful support. Behind the helicopters of a regiment, we also have 230 vehicles (including 30 tanks trucks) and 120 mechanics, to whom we must add those from the materiel units, as well as the light army aviation support groups. We have about 200 specialists who make sure that sufficient helicopters will be available to permit the crews of a regiments to put in about 15,000 flying hours per year.

When we realize that, depending upon the type of helicopter, it takes between 4 and 8 hours of maintenance work for one flying hour, we get an idea of the situation.

What I Corps Light Army Aviation Really Means

In addition to day-to-day routine activities for the benefit of corps units, helping to maintain a real interservice spirit, we have maneuvers in all parts of metropolitan France and even abroad (in Africa, for example, reinforcing the 5th RHC from Pau).

Participation in foreign operations: about half a score of helicopters experienced the tough climate of Chad and more than 200 cadres have been assigned to that region, 4,000 km from Lorraine.

Experimentation with night-vision binoculars, permitting very low-altitude nighttime flying, thus reducing the limitations on the flight range and guaranteeing movement security.

Individual rescue: each year, a MC helicopter from I Corps is made available to a SAMU for the summer season and scores of lives are thus saved (170 evacuations in 1980). In the 6th RM [Military Region], one helicopter is ready to take off for a Medevac mission around the clock, every day of the year.

Exploiting the terrain and obstacles, powerfully armed, the light army aviation formations reinforce and prolong the operations of other units. Because of their long range, they constitute a decisive asset which enables the army corps to adjust to an unforeseen reversal of the situation and to meet an unexpected threat.

5058
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TRADE STATUS WITH SAUDI ARABIA REPORTED

Athens BUSINESS & FINANCE in English 7 Feb 81 pp 17, 18

[Text] The Hellenic Organisation for the Promotion of Exports (OPE), in its effort to inform Greek exporters in connection with the promotion of their products in foreign markets, recently conducted desk research into Saudi Arabia. The study was to inform Greek exporters about the economic situation of the country, the peculiarities of the exchange rates, and the appropriate methods to follow in order to obtain the best results from the entry of Greek products on the Saudi Arabian market. From the study, various conclusions were drawn.

The economy

Over the last few years, Saudi Arabia has constituted a very attractive market for Greek exports for two main reasons – a) the high and steadily increasing income of its inhabitants and b) the high demand for imported goods.

The large increases in oil prices in 1973-74 caused a large inflow of foreign exchange, which presented the Saudi Arabians with the opportunity to take advantage of the best methods, and lay the foundations for the development of their country's econc ny.

Shortly, afterwards, therefore, there was a basic reorganisation of the Saudi economy, but naturally within the framework of the strict teachings of Islam. For the next five-year period, (1980-85) the aims are ambitious, important, and decisive for the economic development of the country.

Considerable emphasis will be given to agricultural development (with irrigation structures, flood control projects, dams, desalination processes, etc. which will result in increased demand for agricultural machinery), the exploitation of mineral wealth, (the processing of oil and natural gases, and the extraction of mineral ores) and industrial development, most of all, in order to bring about self sufficiency – at least in some products, to reduce the country's dependence on oil, and therefore on imports.

The new five-year plan foresees state expenses of 235 billion dollars, a considerable amount, at a time when in other parts of the world, there are cutbacks being made in government spending.

External trade

Exports are limited mainly to oil, which is obviously the country's main product, while the chief imports are industrial products, foodstuffs, machinery, and construction equipment. However, the composition of the imports is expected to change with the programme of industrialisation. It is believed that imports of raw materials, semi-manufactured products, as well as industrial equipment, will increase. Also, with the rapid increase in construction activity, imports of construction equipment and materials are expected to continue to increase.

Increases are also expected in the imports of food, pharmaceutical products, aircraft, vehicles, telecommunications equipment, medical and hospital equipment, luxury goods, etc.

Greek exports

Although Greek exports to Saudi Arabia have increased by 622% over the last five years, while Greek imports from Saudi have increased by only 30%, the balance of trade remains at a deficit for Greece, because of the oil imports. Generally, Greece exports cement, olives, tomato paste, fruit juices, biscuits, flour, construction materials, mineral water, medicines, etc. It is interesting to note that of the countries that export to Saudi Arabia, Greece ranks first for olives, second for cement and mineral water, fifth for biscuits, and sixth for fruit juice and cornflour.

Import procedures

There are various problems concerning import procedures, mainly of a bureaucratic nature. Although Saudi Arabia occupies a vast area, the market is concentrated into a few large centres, at a considerable distance from each other, but which share the following factors in common.

1) There is little 'brand loyalty' on the part of the consumers, and they easily switch from one brand of product to another.

2) The items which are in the greatest demand are the luxury goods, followed by the low-quality cheapest products.

Medium-quality products have the lowest demand.

3) Very often, the consumer defines the quality of the product by its price.

4) Packaging and display in the retail outlets plays an important role in the sales.

5) Immediate delivery has a considerable influence on imports.

In the Saudi Arabian market, social conditions play a major role, and certain products – women's clothing for example – must comply with the social standards and customs. It is significant that men traditionally bought the most important items. However, in the last year or two, women have begun to participate in purchasing decisions as well, so in advertising and marketing it must be remembered that although there are women now in the sector, they have very limited information, and little experience.

The two main purchasing agents in the country are the State, and the private sector, each of which has different criteria for deciding on purchases and can be approached in different ways.

The state holds an important share of the market, and should be approached first. The most important factor in the state purchases is the price of the product, although the quality and tradition also play important roles. State purchases are always made through public auction, and the results are announced by the Saudi Arabian Ministry of Finance, while the bidding procedures are announced by the Ministry which is going to undertake the purchase.

The private importing enterprises constitute the main purchasing sector of the country, and 70% of total imports. There are many private enterprises which import, apart from consumer goods, machinery, spare parts, raw materials for domestic industry, which is developing rapidly, as we have already pointed out.

Marketing methods

There are various ways of penetrating the Saudi Arabian market, and distributing products, but the most common and preferred method today is channelling the products through a Saudi importer, who undertakes as well to be representative and distributor.

The importer-representative can also offer other services, such as the arrangement of visas to enter and leave the country, trips, meetings with appropriate agents of both the public and private sector, etc. All these things could also be arranged by the exporter as well of course, but it should be borne in mind that considerable efforts are needed, and sometimes there are losses of both time and money, because of the special conditions that prevail in the country.

However, even if the services of an importer-representative are used, this does not mean that the introduction of a new product onto the Saudi Arabian market is not without its problems. Advertising on radio and television is strictly forbidden, leaving newspapers and magazines – which have a relatively low circulation, as the sole means of advertising. Roadside advertising is permitted, using either billboards or illuminated signs, but retailers and dealers do not consider the press, or roadside advertising to be an effective way of presenting a product.

Because of the limited advertising media, new products do not rapidly become well-known, unless the appropriate promotion strategies are used, based mainly on the good quality of the product, and a good standard of after-sales service.

There may also be problems with trade deals in Saudi Arabia. The way in which concerns are managed depends

Greece – S. Arabia trade (value $'000)

	1975	1976	1977	1978	1979
Imports	434.825	414.255	334.232	406.908	588.617
Exports	27.796	112.539	131.677	204.023	211.795
Trade balance	-407.029	-301.716	-202.555	-205.885	-376.822

on age, education, profession, job and temprament. Foreign entrepreneurs have often come away with the wrong impression of Saudi Arabian business practices, thinking them unprofessional, and unheard of in Europe and America. But apart from a few peculiarities, the aims and expectations of entrepreneurs in Saudi are no different from those in Europe or the US. Overall, what is required is honesty, good quality, and service — if needed — and competitive prices as well. It should also be borne in mind that as a result of past experience, most Saudi businessmen are now cautious in their dealings with foreigners.

They were for some time under the impression that all products from the developed countries would be perfect in their technology. The impression proved wrong, and many dealers are now cautious, or even suspicious.

Obviously, in trade contacts and deals, a full knowledge of Arabic is an enormous help. A Saudi Arabian is always flattered to meet someone from a non-Arabic country who has taken the time and trouble to master his language fluently. However, if the exporter does not speak Arabic, it is generally better to use an interpreter, rather than another language.

These are all only a small part of the characteristics and problems of the Saudi Arabian market, and none of them are insurmountable difficulties. Proof of the ease with which they can be dealt with lies in the fact that Saudi Arabia has now become an important market for many Greek exporters, and their exports are steadily increasing.

The only problem that Greek exporters have not so far overcome, is realising the full potential of the Saudi market. Because of this, opportunities have been lost in a highly promising market, and one that is additionally such a friendly one for Greece.

CSO: 4920

PHARMACEUTICAL INDUSTRY PRODUCTION, STATUS REPORTED

Athens BUSINESS & FINANCE in English 7 Feb 81 pp 3-12

[Text]

As pharmaceuticals play a major role in the social health issue, one might think of the pharmaceutical industry as one that aims above all to serve the interests of public health. However, pharmaceuticals, and consequently, health, together form one of the most acute problems of Greek society.

The existing rules, and in many instances the lack of them, leave room for the production and marketing of pharmaceuticals to be accompanied by speculation, lack of knowledge, mistakes, unprofessionalism, and other unacceptable practices, were it not for the honesty and integrity of the manufacturers, because no effective state interference exists.

Furthermore, the huge variety of pharmaceuticals in Greece encourages the present trend for overconsumption. The consumer lacks knowledge about pharmaceuticals, and as his choice cannot be based on the knowledge of the product, has no choice at all. He buys what he is told to buy, following the advice of a doctor or sometimes even a friend.

At the same time, doctors are subjected to continuous and intensive propaganda, and quite often follow the 'advice' of the industry. This is a convenient way for the industry to market its products, and leaves ample room for misinterpretation and significantly increases the cost at the expense of the end-user; that is, the state, insurance funds, and the public. Furthermore, pharmacists sometimes sell without a doctor's prescription and often they too lack the necessary scientific knowledge. The end result, therefore, is an alienated consumer and a cheated state which, surprisingly, does little or nothing to improve the situation (what can it benefit from such an attitude).

The other side of the coin is the economic aspect of the problem. This also includes malpractices, which, however, rarely appear on the surface. Hopefully, the following survey will be of interest to the reader, and enable him to draw his own conclusions.

ON October 11, 1979 the "European Conference for Pharmaceutical Research" was held in Athens organized by the Federal Union of German Pharmaceutical Companies and the Association of Swiss Chemical-Pharmaceutical Companies. The Greek pharmaceutical industry did not have any significant research results to present while particular emphasis was given by the Conference to the economic costs envolved in the preparation of a drug or midicine usually unknown to the patient. The chemist, it was said, is at the beginning of the research process. He discovers new substances likely to have curative action. From the time the first chemical compositions appear in the laboratories till the patient receives the finished product, there is a time lapse of about 12 years. The costs for this new medicine may reach 90 million DM. A very important factor is that out of every 10,000, newly composed substances, only one is finally able to meet the required standards for medicines, i.e., its quality, effectiveness and its safe usage. For factories which undertake intenseive research programmes, research costs can reach 12-15% of the value of production. This is reduced to 2-3% for the other manufacturing industries.

One of the arguments against undertaking research programmes is that research costs increase at a much faster rate than the sale prices of pharmaceuticals. However, this relatively slow price increase in pharmaceuticals has been accompanied by today's trend for overconsumption in the Western World. According to a study conducted by an EC committee, the percentage increase in the consumption of pharmaceuticals in Europe during the last ten years is as follows :

France	[illegible]%
Italy	[illegible]%
W. Germany	80%
Holland	70%
Belgium	60%
Gr. Britain	57%
Denmark	41%

The products of the pharmaceuticals industry cannot be regarded as normal consumer goods. With pharmaceuticals and medicines the concept that demand and supply set market prices cannot be assumed to apply, and consumer protection has to be taken beyond the usual laws of 'let the buyer beware'. Such unique problems inevitably call for state intervention since the health of the population is at issue.

Over the past few years many individual countries and international organisations have looked at the pharmaceutical industry and questioned both the need for so many different varieties of drugs and the pharmaceutical companies' pricing policies. The report of a World Health Organisation expert committee entitled 'The selection of essential drugs' makes the comment : "While drugs alone are not sufficient to provide adequate health care, they do play an important role in protecting, maintaining and restoring the health of people. In recent years there has been a tremendous increase in the number of pharmaceutical products marketed but there has not been a proportionate improvement in health".

Unfortunately in Greece the history of the pharmaceutical industry has been one of inadequate government control, unprofessional behaviour in some sectors, and consequent dissatisfaction all round.

Since 1974 the control over the pharmaceutical industry excercised by the Greek government has been strict as far as prices are concerned, but too lax in checking the standards of drugs already on the market and of controlling the number of new medicines granted licences. Thus the characteristics of the pharmacautical market have been a very large number of different proprietary brand drugs (8,000 to 12,000 depending on the definition used) whose quality and efficiency are largely unchecked, and continuous disagreements between the government and the industry about when and how large price increases should be allowed.

There are no facilities for producing the raw materials for medicines in Greece and therefore all raw material requirements must be imported. This leads some observers to describe the pharmaceutical industry as a light one for the mixing and packaging of medicines rather than a complete vertically integrated industry. After making a study of the industry in 1976, the Hellenic Industrial Development Bank (ETBA) recommended that for certain raw materials, including vitamin C and semi-synthetic penicillins, there was sufficient home demand to warrant the setting up of production units. These however have not materialised.

In addition there are no research laboratories attached to the pharmaceutical companies for the development of new drugs. This is understandable since only the major multi-national companies have the resources required for original research and they are more likely to establish research units in countries with a tradition of scientific research. It has been suggested however that low level research, for example for the development of new formulations using existing active ingredients, could usefully be undertaken. As it is, the Greek-owned firms rely on producing copies of drugs developed elsewhere, and, since many of the smaller enterprises choose to manufacture the same simple drugs, there is over-production in some types of medicines. The ETBA study produced the following breakdown for pharmaceutical production in 1976 :

	% total home production
Antibiotics	40
Vitamins	8
Analgesics and antipyretics	6
Psychotropic drugs	5.3
Cardiological preparations	5.2
Dermatological preparations	3.7
Cough medication	2.3

The remaining 29.3 percent of production is accounted for by ophalmological preparations, steroids, hypertensives, hormones, anesthetics, etc.

DESCRIPTION OF THE SECTOR

In 1980 there were 114 units involved in the pharmaceutical industry. Of these about 75 were of the medium and large size, with a total gross production of about 7 billion drs.The others are small-sized units.

In 1977 there were 108 companies, in 1969, 98 and in 1958, 58 companies. In 1977 there were 84 Greek owned ones, 11 Greek-owned but operating under licence to produce foreign brand names and 13 foreign owned (data supplied by the Ministry of Commerce).

More than 90% of the units have been established in Attiki and Boeotia. Many of them employ modern technological equipment with high degree of automation. Those technologically advanced units have been established mostly around Athens and on average employ about 100 persons.

Structural problem : The basic characteristic of the Greek pharmaceutical industry is that vertically integrated production is completely absent, in contrast to most of the pharmaceutical industries abroad. This is officially attributed to the small size of the domestic market which in spite of the big consumption increases, was not large enough to allow firms of a size that would be able to hanlde research costs for new substances, creation of new medicines and the expansion of production to allow each firm to fully use all the raw materials it produced.

A second restriction to the creation of large units of international standards is the lack of specialization. The Greek pharmaceutical industry suffers from a lack of product specialisation which exposes it to strong competition from imported pharmaceuticals and foreign pharmaceutical companies established in Greece.

The contribution of the Greek-owned pharmaceutical industry to the country's industrial capacity is conti-

nually decreasing. According to the Association of Greek Pharmaceutical Industries and contrary to the dates supplied by the Ministry of Commerce, the Greek pharmaceutical industry consisted by 61 units in 1976, 56 in 1977 and this number was further reduced during the 1978-80 period regardless of the rapid increase in consumption (450% increase between 1969 and 1977).

PRODUCTION - CONSUMPTION

Production of pharmaceuticals in Greece increased significantly during the 1970-75 period, especially for antibiotics. (a production increase of 330%). Antibiotics are a speciality of the Greek pharmaceutical industry.

Foreign firms account for more than half the domestic production of pharmaceuticals which, together with the production of Greek-owned firms satisfies 72.5% of domestic consumption, the rest being covered by imports (1979 data, Ministry of Commerce). More recent production data for 1978 indicates that the value of production reached 8,591,046 thousand drs. against 6,341,003 thousand drs in 1977.

In 1979 domestic consumption reached 13.5 billion drs. against 12.0 billion in 1978, i.e. it marked an increase of 12.5%. As mentioned above, unofficial information puts the 1969-1977 consumption increase at 450% which, if it is true, places Greece in the first position among the European countries and one of the highest in the world.

Most domestic consumption is covered by the State and social insurance organisations. A factor influencing the production and consumption of medicines or drugs in Greece is the limited ability of the consumer to distinguish or choose among the various products and brands when purchasing. Since he usually lacks knowledge of pharmaceuticals or chemicals, his choice cannot be based on knowledge of the product and he buys what he is told by his doctor (or even, sometimes, a friend).

The fact that demand for drugs and medicines remains the same or even increases despite price increases, leads to high commercial profit margins.

A medicine is a basic necessity for the people. Since the consumer considers his own good health the most necessary and desirable thing in his life he will do anything he can or will pay any amount for a certain medicine for this purpose. He often buys medicines he thinks are necessary but which in fact are useless. The fact that the consumer often has no knowledge about the drugs or their composition, rules out any real choice since he buys whatever he is told to.

Although this is often described as 'sick' behaviour, is it really the consumer who is to blame? The commercialisation of pharmaceuticals (products for the public health), the big space left for 'intermediates', and the speculation of the pharmaceutical companies place the burden of responsibility on the State which has to safeguard production and marketing of drugs through the application of rules and restrictions which allow the industry to work for the public interest. Above all, this is an ethical issue and should be treated as such.

There are about 10,000 pharmaceutical products in circulation in Greece today. The basic medicines however number only a few hundred while the rest are the result of the intensive commercialisation in the world of pharmaceuticals.

PROTECTION

During the last few years the Greek pharmaceutical industry has been protected by various measures (not of a tariff form). Greek legislation forbade imports of ready-made drugs and medicines if 'similar' ones were produced domestically. There was, therefore, at least theoretically, a possibility for the industry to use its existing capacity to cover domestic needs.

Imports have also been reduced during the last few years as a result of the creation of new units in cooperation with foreign firms whose products were previously imported.

A major contributor to this production increase was the production of antibiotics which was 40% of total production in 1974 and 50% in 1976.

Increased domestic sales were also accompanied by an increase in exports especially of antibiotics which are being

increasingly absorbed by the West European markets. However, it should be remembered that a significant part of exported pharmaceuticals are produced domestically by subsidiaries of foreign firms which produce and export some of their products to the 'mother company'.

Policy requirements

Existing surveys concerning the Greek pharmaceutical industry (see IOBE, ETBA) support the view that the industry's current production capacity is greater than consumption needs would require. The government, therefore, need not contribute financially or otherwise to the establishment of new production units. On the contrary, the current opinion is that existing units should expand only to create conditions for vertical integration (production of raw materials) i.e. creation of heavy industry, mergers for handling and developing exports, research and checking of raw materials and finished products.

No firm-owner, however, is eager to merge with another company since mechanical equipment or the scientific infrastructure of his firm has to remain unrevealed because of the severe competion in a single-product market.

State intervention

It has been generally accepted that state intervention is to a certain extent justified when products directly related to the public health are concerned. But how does the Greek government deal with the production and marketing of pharmaceuticals? A recent study by IOBE points out that current governmental intervention adversely affects the industry's returns and flexibility; the unsatisfactory operation of KEEF (i.e. insufficient controls) and the present pricing system set by the government. Other relevant problems which were mentioned during a discussion in the Parliament were:

– consumption of medicines and drugs in Greece exceeds 6.5 billion drs.
– sample-checking in laboratories is incomplete, resulting in poor quality control of over 10,000 products in circulation
– there is lack of coding, specifications and standardisation
– prices are set arbitrarily
– the whole system faces difficulties due to the lack of a general education on pharmaceuticals, scientific inadequacy, lack of specifications for technological standardisation, and imports of raw materials are burdened by excessive costs and polypharmacia
– about 33% of public expenditures of the health sector cover the cost of pharmaceuticals. In Great Britain this percentage was reduced to 10% and even then the system under which the industry operated is considered a failure.

IMPORTS - EXPORTS

The percentage of total consumption of pharmaceuticals covered by imports has been kept almost steady over the past five years. In 1970 imports accounted for 43.8% of total consumption, 26.8% in 1976, 28% in 1977 and 27.5% in 1979. Nevertheless, the value of imports has been rising from 2,209,502 thousand drachmas in 1973, they went up to 3,415,965 thousand drs in 1978 and to 4,741,274 thousand drs in 1979. After being in the lead for many years, West Germany was toppled from its position by Switzerland in 1977. These two countries supply about 43 percent of total imports.

Between 1977 and 1978 exports of Greek pharmaceuticals increased from 647,920 thousand drachmas to 796,689 thousand drachmas. A small set-back took place in 1979 when the value of exports dropped to 737,177 thousand drachmas. About 2 percent of the exports are sold in bulk and the remaining 98 percent are sold packed ready for retail.

As mentioned elsewhere, a large part of exported pharmaceuticals are produced domestically by subsidiaries of foreign firms which produce and export some of their products to the 'mother company'.

The EC absorbs a considerable volume of pharmaceuticals exports from Greece. Belux and West Germany absorb about 25% of total Greek exports. Portugal is another important European market for Greek pharmaceuticals. Exports to the Middle East have also been increased. Saudi Arabia and Libya have proved reliable markets. In Africa, Zaire has received considerable imports of Greek pharmaceuticals.

However, not all products have been exported in the same quantities. Anti-

biotics continue to be the major exportable product occupying a greater percentage of exports each year.

COMPETITIVENESS

In 1977, returns on equity capital of the Greek pharmaceutical industry were considerably low. According to data taken from the balances of 56 pharmaceutical companies, returns on equity capital reached 3.46% in 1975 and -0.18% in 1976. This performance did not promise efficient market behaviour of the Greek pharmaceutical industry, which had to recover with only two years until EC accession. The sector's competitiveness could not meet the competition of big pharmaceutical company groups in Europe. 1980 found the industry in an improved position but still highly vulnerable to European competition. Lack of vertigal integration and specialisation in production are two other main problems. Free establishment of European companies in Greece, according to the Treaty of Rome, is expected to create serious problems of competition for the Greek pharmaceutical industry.

In this country, we have more than 10,000 pharmaceuticals in circulation (in Sweden they do not exceed 300). Everyone that wishes to produce a certain medicine, can do it on a facon basis.

Although under Greek law, the price for similar pharmaceutical products must be the same, the procedures for the setting of the price are such that they leave room for price differentiations for the same product.

Three years ago, there were in circulation more than 180 (yes, one hundred and eighty) different products for the same antibiotic: Ampicillin. The following table gives the brand name, the manufacturer, and the retail price of a few of them for Ampicillin capsules of 500 mg.

Ampicipen	*(Elpen)*	*17.42*
Adelcopen	*(Adelco)*	*17.72*
Ampicillin	*(Cooper)*	*18.00*
Spiracillin	*(Help)*	*19.94*
Pledyl	*(Ladrug)*	*20.28*
Aslipipen	*(Santa)*	*20.30*
Ampicillin	*(Gap)*	*20.30*
Azionolin	*(Medica)*	*20.30*
Isticillin	*(Pharmaco)*	*20.30*
Abetathen	*(Remedina)*	*20.31*
Fratelin	*(Chemica)*	*20.31*
Pembitin	*(Beecham)*	*20.31*
Pentrexil	*(Bristol)*	*20.31*
Spirogram	*(Farmavel)*	*20.31*
Acidocycline	*(Vekfar)*	*20.32*
Maxibiotic	*(Antibiotiki)*	*20.32*
Normampicillin	*(Norma)*	*20.32*
Picilin	*(Chropi)*	*20.32*
Syn Phen A	*(Faran)*	*20.32*

Allumycin	*(Proel)*	*20.32*
Chrispacillin	*(Chrispa)*	*20.33*
Klevacillin	*(Kleva)*	*20.33*
Ampikyl	*(Medhel)*	*21.00*
Crystallin	*(Defarm)*	*21.75*
Etabus	*(Genefarm)*	*21.75*

PRICING

The pricing of pharmaceutical products has for many years been under the control of the Greek government although there was a period of free pricing from 1969 to 1973.

Before 1962 the Ministry of Social Services controlled prices with the help of expert advice. From 1962 to 1968 the task was taken over by the Ministry of Commerce which used the simple expedient of pricing new medicines at the same level as similar existing medicines. During the dictatorship in Greece, the prices of pharmaceuticals were freed from control, the only limitation on the industry being the limitation of net profits to 18% of revenue. Any profit in excess of this was liable to confiscation by the government. As would be expected, prices rose but not uniformly. Some firms chanelled increased revenues into marketing, including the unprofessional practice of paying commission to doctors and pharmacists. Pharmaceutical companies were trying to increase the elasticity of demand of their products so that prices could be raised without losing custom.

The purpose of promoting any products was, therefore, to differentiate it from its competitors. However, prices for similar products from different firms began to deviate widely. In other words, the pricing of pharmaceuticals was left to the 'market forces' against the general opinion that at least pharmaceuticals should be priced on a cost-plus basis.

With the restoration of democracy in 1974 it was decided to reimpose price controls on pharmaceuticals and to undertake a complete repricing of all drugs on the market. This process took about two years to complete and in the mean time two across-the-board price increases were awarded. The new law enacted to control drug prices was more restrictive than that in effect prior to 1968 and sought to put limits on the various constituent parts of the price. For instance, profit was limited to 15 percent of price and the maximum expenditure on raw materials was to be no higher than 25% of the wholesale price. The latter restriction was imposed because of irregularities in receipts for raw material imports which had occured under the free pricing system. To limit marketing costs, general commercial expenses were to be no greater than 68% of production costs. In addition, the desire to have identical medicines sold at a uniform price was formalised by legislation. Imported drugs were to be accompanied by a document from the Commercial Attache of the country of origin giving the price, less profit and tax of the drug in their country.

The pharmaceutical companies found this law very restrictive in the efficient running of their enterprises. The Association of Greek Pharmaceutical Industries reports that firms operating at a loss increased from 5 in 1972 to 10 in 1974 and 19 in 1975 and claims investment declined from 7 percent in 1971 to zero in 1976.

Substantial price increases have been awarded almost every year since 1976 varying between 14 and 20 percent. Nevertheless, the pharmaceutical industry has not been satisfied with the size of these increases since they claim that production costs have risen more sharply.

In particular, raw material costs are said to have risen by 30-40 percent. European companies exporting pharmaceuticals to Greece have also complained recently that their products are sold in Greece at very low prices and they exert pressures on the Ministries for price increases (the recent Swiss example).

The system of price increases contains, however, another negative factor which hits the consumers. Every time there is to be a price increase, it is announced between twenty days and a month in advance. This results in the hoarding of drugs and medicines by the pharmacists who naturally find it advantageous to stop supply until the date the new prices become valid.

Referring to the retail price of a drug, its cost and profit components are approximately as follows:

Raw materials	18.3%
Production expenditures	11.0%
Sales and promotion expenditures	15.4%
Interest and depreciation	2.9%
General administration costs	1.8%
Payments to the State, etc.	13.2%
	62.6%
Maximum industry profit allowed	*7.1%*
Price of factory sale	*69.7%*
Profit of drugs merchant	*5.5%*
Selling price to the pharmacist	75.2%
Tax on invoice	1.8%
Pharmacist's profit	23.0%
	100.0%

Any drug in circulation, therefore, carries the burden of very high non-production expenditures (like for instance the very high 15.4% for sales promotion, i.e. advertising and approaching doctors). Moreover, commercial profit amounts to 28.5% which again is very high.

THE NATIONAL DRUG LIST

The National Drug List has today become an absolute necessity. The doctor will have to write the scientific and not the commercial name of pharmaceuticals of the same type. This could solve the problem on the condition that quality is secured based on pre-determined strict specifications for the standardisation of raw materials and ready-made pharmaceuticals of the 'same kind'. If this prerequisite is not in force, the companies' 'marketing' will start appealing to the pharmacist instead of the doctor. A patient might not receive the best medicine for his case because the pharmacist, who will have to choose between two medicines 'of the same kind', would not use clinical experience as a criterion concerning this medicine but only his profit, as he lacks criteria to evaluate the quality of the pharmaceuticals in his drugstore. Of course, the consequences of this for public health are self-evident.

PROFESSIONAL PROBLEMS

The pharmacist is, of course, directly linked to the pharmaceutical industry and the problems he faces are to a great extent functions of the serious disturbances occuring in the industry today. Many pharmacist graduates would like to work as researchers in some

Table 1: The contribution of the Greek pharmaceutical industry to major manufacturing and Branch 31 (chemical industries)

	1975			*1976*		
	Values (mill drs)	*% of major manufacturing*	*% of Branch 31*	*Values (mill drs)*	*% of major manufacturing*	*% of Branch 31*
Average annual employment	5,971	1.72	31.38	6,254	1.70	30.26
Gross value of production	3,417	1.17	14.36	4,324	1.20	15.41
Added value	1,814	1.95	20.38	2,165	1.83	19.82
Sales	1,603	0.80	10.76	2,159	0.90	12.65
Gross investment	263	0.98	8.36	211	0.68	8.87

pharmaceutical firm or organisation but the present possibilities are nil, since there is no such thing as original research in the field of pharmaceuticals in Greece. They have no choice, therefore, but to open a drug store, and when short of the capital required, they turn to 'illegal' subletting.

In 1974 there were 2,300 drug-stores all over the country (i.e. one drug-store for every 4,000 inhabitants). In 1979 there were 4,500 drug-stores (one for every 2,000 inhabitants). This is an area in which the State could help to a great extent, i.e. the pharmacist and his drug store. The increase in the number of drug stores makes the situation rather worse because the present malpractices are multiplied. Today, there are still problems associated with speculative behaviour, irresponsible selling of medicines, lack of bibliographies and scientific information (one should not forget that a pharmacist has an advisory role to play), lack of modern and scientific operation specifications, bad storage of pharmaceuticals, inadequate air-conditioning, inferior laboratories, absence of state inspection, etc.

PROBLEMS IN THE EC

There are considerable problems in the Community regarding production and marketing of pharmaceuticals. Over-consumption of pharmaceuticals ranges from 4.5 prescriptions per head in Holland to 21 prescriptions per head in Italy and there is no uniform Community policy. The EC countries try to harmonize their legislation so that guarantees for public health become equivalent for all of them. There are common directives regarding circulation licences, labels, entrance-to-the-market procedures for a medicine, and common rules for tests and trials regarding pharmaceuticals which are to circulate.

Community experts, however, emphasise the point that the above policies, apart from reducing the production costs of pharmaceuticals, do not help solve the general problem. Nothing has been done for prices, doctors' practices and consumer behaviour. Regardless of state interventions, there is an intensive effort in the Community to safeguard a certain degree of liberalisation. Every effort for drastic changes in the wasteful pharmaceutical circles is consequently regarded as a threat to personal freedom and is therefore unpopular. This is the most critical problem for the Europeans today.

The European pharmaceutical industry

The five biggest pharmaceutical exporting countries of Western Europe – West Germany, Great Britain, Switzerland, France and Italy – received 4.4 billion dollars in 1977 from their exports. Their pharmaceutical trade balance had a surplus of 2.5 billion dollars. Those countries spend about 5% of their national income on public health but have been subjected to significant reformations of the relative policies and control mechanisms either by the Community or by domestic pressures.

Italy was forced by the Community to declare that the laws exempting pharmaceuticals from patents' protection was unconstitutional.

In France a political debate took place which, under certain conditions could lead to the nationalisation of the pharmaceutical industry. The plan was postponed since there were fears that French pharmaceuticals might lose in competitiveness because of the slackening of scientific research, enormous costs and the unavoidable losses of the public enterprises.

In Great Britain there have been many conflicting interests since the debate for pharmaceuticals exists on the level of control of advertising and information regarding pharmaceuticals.

In West Germany, the pharmaceutical industry faces restrictions concerning expenditures on pharmaceuticals due to a new law concerning checking of social health insurance costs.

Moreover, the European pharmaceutical industriés face the problem of adjusting to the changes taking place in the international markets. There are, for example, some questions which were under consideration recently:

– Will Japan insist on gradually abolishing the system of prescriptions' issue by doctors?

– What system for the protection of pharmaceutical patents will Brazil adopt?

– How is the Australian pharmaceuticals market to function after the abolition of state health insurance?

	Low income countries	Average income countries	Industrialised	Socialist (including China)
Number of countries	34	58	19	11
Population in 1976 (millions)	1,317	895	684	1,208
GNP per head (1976 dollars)	150	750	6,200	2,280
Expected life duration	44	58	72	70
Inhabitants per doctor	21,185	2,430	650	480
Pharmaceutical consumption per head (1976)	1	9	36	7

The above table refers to 122 countries. Saudi Arabia, Kuwait, and Libya are not included.

Where the problems will come from

EC directives concerning pharmaceuticals as such are less likely to create serious problems for the Greek pharmaceutical industry than the directives concerning competition matters in this industry. This is so, because the oligopolostic or monopolistic situations which are currently being formed in the market for pharmaceuticals by certain big companies are completely contrary to the Community principles regarding the protection of free competition. This is a matter which has been drawn to the attention of the European Council as well.

The plan of the Directive for 'product liability' (which has circulated for years in the Community without ever having been approved) is a serious threat to the pharmaceutical industry, without, however, referring specifically to pharmaceuticals. This is so because it demands that industrial products should be secure not only based on today's existing scientific knowledge but based on future ones as well, threatening, furthermore, with destructive penalties. The problem here becomes a multidimensional one.

On one hand, cases like the Thalidomide scandal support the existence of such requirements while, on the other, the likeley decline of the pharmaceutical industry (forbidding the development of new medicines in fear of dangers likeley to be involved) supports an opposite argument.

Particularly for Greece, where most of the pharmaceuticals are produced under licence, problems may arise from: exclusivity, limited distribution, monopolistic or oligopolistic situations, etc., and other matters subject to Community legislation concerning competition.

WHAT SHOULD BE DONE

– Establishment of a national prescription book and reduction of the consumption of pharmaceuticals.
– Development of domestic research for, and production of, raw materials for pharmaceutical products.
– More complete and effective control of pharmaceuticals in circulation.
– The State should undertake responsibility for the proper production and marketing of pharmaceuticals.
– Profit margins should generally be reduced and in particular cost components like advertising and cost of doctors' visitors.
– Radical academic changes for the better and more up-dated education of Greek pharmacists.

CSO: 4920

OLAFUR EGILSSON, MADRID CSCE ENVOY, DISCUSSES GOALS

Reykjavik MORGUNBLADID in Icelandic 1 Feb 81 p 30

[Interview with Olafur Egilsson, Madrid CSCE envoy conducted by Bjorn Bjarrason: "Human Rights, Disarmament and Continuation of Detente Main Topics"]

[Text] Invasion in Poland would have caused breakup of the conference.

The second half of the CSCE in Madrid started this week. The conference started 11 Nov 80 after long disputes about the agenda of the meetings. Ambassador Nils P. Sigurdsson attended the preparatory meetings for the conference and later participated in the conference itself. In a series of articles published in MORGUNBLADID at the end of July and beginning of August last year, Ambassador Sigurdsson explained the proceedings that led to the CSCE and the meeting of leaders that was held in Helsinki in 1975. A so-called final conclusion was made at that meeting, and the meetings in Madrid are being held in accordance with the provisions of that final conclusion.

Ambassador Olafur Egilsson has also attended the Madrid CSCE on behalf of Iceland. MORGUNBLADID talked to him about the development of the matters at the conference.

[Question] Of what did the agreement that was finally reached about the agenda of the Madrid CSCE consist?

[Answer] Primarily it evolved around the solution of a disagreement on how much time should be devoted to evaluating implementation of the Helsinki Accords. The countries that have been criticized the hardest for non-implementation laid heavy emphasis on making that time as short as possible. The mediation resolved that the first six weeks of the conference would be devoted to these discussions, although new proposals could be submitted during the sixth week. Furthermore, the East European states had also been reluctant to agree that it would clearly and definitely be a part of the conference agenda to decide on the time and place of the next conference of this kind. It can be said that they gave in on this issue. It is understandable that they are hesitant to enter into the fire of criticism that has been going on during both the conferences held on the basis of the Helsinki Accords.

On the other hand, it still remains to come to an agreement about the time of a new conference and select the location, which might be difficult. It is, however, the norm that these conferences be held every two or three years, if the framework of the Helsinki Accords is to be maintained.

[Question] Was the western criticism of the Soviets not more severe than before?

[Answer] The criticism because of the situation of human rights matters in some of the member countries of the Helsinki Accords was so severe at the last conference, the one held in Belgrade three years ago, that there was no room for more severe criticism. The gravity behind the words was perhaps still greater now, as a longer time has passed--fully five years-- without any changes worth mentioning having taken place. Added to that is the great seriousness of the Afghanistan matter. It loomed and is still looming heavily over the detente policy. The Soviet Union has been severely criticized for their actions there.

[Question] Is there unity among the representatives of the West, or can a difference of opinion be detected between the Western Europeans on one side and the United States on the other, where one party does not want to go as far as the other in their complaints towards the Soviet Union?

[Answer] The representatives of all the Western countries, including all the representatives of neutral and independent states, are united in forcing a more active implementation of the Helsinki Accords, especially with regard to freedom of expression, the right of family members to unite and freer travel in general, as well as increased information communication. The basis of the criticism is the same with all, although the approach might obviously vary sometimes. The difference in how the Western Europeans and the Americans handle the matter is no greater than the difference between individual Western European states internally. There is therefore no reason to speak about difference of opinion, as the view of all these nations is based on deep common roots. Some people, however, felt that the Soviet Union was trying to create a gap between the European countries and the United States.

[Question] What are the answers of the Eastern States?

[Answer] They complain that their internal affairs are being interfered with and feel it sufficient that each state declare what it has done to implement the Helsinki Accords. They further point out that the agreement is a long-term plan. The Eastern bloc countries, of course, totally disagree that their performance has been as reproachable as has been maintained. Some of the Eastern bloc countries maintained that the unemployment in the Western countries was much more serious a human rights restriction than anything that had taken place in the eastern part of Europe. All this reflects a deep-seated difference in social systems and views.

[Question] What effect do the events in Poland have?

[Answer] If the Soviet Union had intervened, the conference would have dissolved.

[Question] Are there any possibilities that the policy of the United States will change when Reagan takes office?

[Answer] Not with regard to the basic factors; but the treatment of matters might change and the emphasis that was placed on one issue might be transferred to another. People are waiting with some expectations to see if that happens, and if so, what goal the new administration chooses to work towards in the near future.

[Question] How do the ideas about disarmament and arms race control differ?

[Answer] The greatest attention is directed towards two proposals to call a special disarmament conference this year, attended by all 35 members of the Helsinki Accords. Both proposals suppose that the first task of such a conference would be to attempt to strengthen the so-called credibility measures. These measures would involve the member states inviting each other to follow their military exercises and inform in advance about major military exercises and troop movements. These provisions of the Helsinki Accords regarding major actions are far from having been utilized to the utmost. Presently, there is therefore great interest in obtaining greater goals in this aspect as the credibility measures are intended as the prologue to more realistic measures in arms limitation and later in disarmament.

On the East European side there has, however, been a great reluctance to decide what direction to take in further strengthening the credibility measures and there is no indication regarding that in their disarmament proposal. In the French proposals regarding disarmament it is recommended that new credibility measures are to have not only political but some military value. These measures should be binding; it should be possible to make sure they are carried out, and they should cover all Europe between the Atlantic Ocean and the Ural Mountains. So far the Soviet Union has only agreed that the information obligation apply to military exercises within 250 km from their border to other European states--and the East European states have not been prepared to agree to the conditions of the French proposal.

Some other features of the French proposal are that the disarmament conference deal with supplying information, which could increase the identification of military strength; measures to increase stability, for instance by giving information according to set rules about how extensive certain military measures are, and controlling the honoring of those obligations.

The proposal of the Warsaw-Pact countries is, on the other hand, worded in very general terms and many people therefore think that a conference that would be held based on that proposal would be very disjointed and unlikely to yield any results. The reluctance of those countries to further define the role of a future disarmament conference has aroused suspicion that they primarily want to create a new propaganda forum, where they will try to reduce the vigilance of the Western countries in defense matters.

It will become clearer during the coming weeks whether it will be possible to lay a common foundation for a disarmament conference.

Those who still remember all the disputes about the shape of the conference table during the Paris negotiations about peace in Vietnam know that it can be difficult to reach an agreement about the format of such meetings--let alone points at issue. But the endeavor must continue.

[Question] What will happen until March?

[Answer] Until 12 February the plan is to discuss mainly the over 80 proposals that have been made. Then serious attempts to coordinate text and write the final conclusion of the conference will begin. That is to be finished early in March. Most people, however, expect it to take longer.

[Question] What can you tell me about Iceland's participation in the conference?

[Answer] As is well known, Foreign Minister Olafur Johannesson gave a speech at the beginning of the conference, where he explained Iceland's essential views regarding the matters at issue. This speech has been reported by the mass media. It should be mentioned that there was a great demand for the speech's text at the news department of the conference and twice it became necessary to increase the number of copies, which turned out to be over 400. Later in the conference, our views regarding some major issues have been expressed further, such as our support for the categorical demand of the Swedes to obtain information about the fate of the government official Raoul Wallenberg, who is supposed to be kept imprisoned in the Soviet Union.

Iceland was the cosponsor of nine proposals at the conference, some of which were to abolish the tyranny people have been subjected to for demanding that the human rights provisions of the convention of Helsinki be implemented. Iceland also cosponsored a proposal to improve the working conditions of journalists and increased distribution of newspapers and periodicals. Another proposal was that human relations between the citizens of member countries be increased, especially with regard to family ties, and that applications for visas be expedited with fewer delays, which are now the custom. There is a proposal about the preservation of historical monuments and the translation, publication and distribution of literary works published in languages that are not understood by many people. Finland and Hungary also support this last mentioned proposal. Finally, a proposal regarding measures to support international trade of small and medium-sized companies should be mentioned.

It is obviously hectic for two representatives to handle the participation in a conference that is divided into five committees, besides the general meetings and many other kinds of meetings. But that is, of course, nothing new for the officials of the Icelandic Foreign Service.

[Question] What is the most and the least to be expected from this conference?

[Answer] The greatest result would be to reach an agreement on measures that could lead to an improvement in the human rights matters, along with an agreement to hold a disarmament conference in Europe. The least to be expected is probably a final document, similar to that in Belgrade, that involved very little more than a decision to meet again in two and a half years.

But it must be kept in mind that even though documented conclusions of the conference might be scant, the exchange of opinion that takes place at the conference--both during meetings and outside of meetings--is of immeasurable value.

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CIVIL DEFENSE DIRECTOR: ECONOMIC EMERGENCY PLAN STUDIED

Reykjavik MORGUNBLADID in Icelandic 15 Feb 81 p 2

[Article: "The National Civil Defense: Studies in the 'Security of Icelanders During War'"]

> [Text] The National Civil Defense is now studying and discussing whether there are sufficient supplies of various merchandise in the country, from the security point of view. "People have been contemplating what would happen if sea transportation to the country would be halted," said Gudjon Petersen, managing director of the National Civil Defense, in an interview with MORGUNBLADID. "The discussions are about the fact that sea transportation could be halted for some reason," said Petersen, "because of war or other reasons. But the reason that this matter has not been taken up in the National Civil Defense Council is that the law does not suppose that this is a matter for the National Civil Defense but for the Ministry of Commerce. Whether it is feasible to change this arrangement is a matter I am not prepared to elaborate on at this time."

Petersen said that from the security point of view, there were many items or merchandise that the nation could ill afford to be without. In that respect one could mention for example, fuel, medicine, spare parts for hydro-electric power plants and other equipment, the most necessary foodstuffs and many other things. Petersen said that the country was relatively well off and almost self-sufficient regarding foodstuffs, but the same could not be said about other types of merchandise. Petersen also said that the surgeon-general had called attention to the fact that great care should be taken to stock enough medicine here. He also said that there was a close connection between the National Civil Defense and the oil companies which send in information about the fuel supply in the country.

Petersen said also that the regional committees studied these matters, each in its own locality, especially with regard to areas whose harbors could be blocked by ice.

Otherwise, he said that there was nothing special happening in these matters at present and no decision was to be expected in the near future.

On the other hand, currently preparations are being made to study all the phases of wartime matters, meaning the security of Icelanders in war. "This is a policy line that is being decided," said Petersen, "because of warlike conditions in many places of the globe, where all the aforementioned phases are also being studied."

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BRIEFS

SOVIET RESEARCH SHIPS--Benedikt Grondal says in an interview with ALTHYDUBLADID yesterday that the visit of the three Soviet research ships which MORGUNBLADID reported the day before yesterday is "a diplomatic measure as a reminder of the strength and proximity of the Soviet Union, especially when the defense station in Keflavik is a big issue in Icelandic politics". Grondal says in the interview: "It seems out of the question to me that the visit of the three big oceanic research ships from the Soviet Union to Reykjavik just now is coincidental. All information indicates that Icelandic authorities were unprepared for this visit, and it therefore must be concluded that it is a diplomatic measure as a reminder of the strength and proximity of the Soviet Union when the defense station in Keflavik is a big issue in Icelandic politics. This is, of course, a common move on the world chessboard and there is nothing to be done about this on behalf of the Icelanders but accept this with friendliness--but understand what they are being told. Here we have an example of the Soviet Union coming to the support of the People's Alliance in a sensitive defense matter, even though it is being done in a conventional manner and cannot be criticized." [Text] [Reykjavik MORGUNBLADID in Icelandic 15 Feb 81 p 2] 9583

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BUDGET, PLANNING MINISTER ON MEDIUM-TERM ECONOMIC PLAN

Rome RASSEGNA SINDACALE in Italian 22 Jan 81 pp 23-24

[Interview with Giorgio La Malfa, minister of Budget and Economic Planning, by Gennaro Schettino: "This Plan Is a Whole Program"; date and place of interview not given]

[Text] Increased supply and productive capacity: these are, in a word, the objectives that the government planning document proposes for a "structural" economic policy. The union must face the problem of productivity.

The preliminary discussion document presented last July on medium-term economic policy stressed particularly economic management of the business cycle. It is, then, an empirical policy. However, this draft of a medium-term plan puts forth supply-side planning as a central part of public action.

We have asked some questions of Budget and Economic Planning Minister Giorgio La Malfa, beginning with the significant differences between the two documents.

La Malfa: The 3-year plan states that official government action to stimulate employment in the South consists of moving public funds to increase significantly the amount of public funds in capital accounts. This program is carried out by gradually reducing the need for current public financing and increasing expenditures for capital. All economic policy makers should do their utmost to make it possible to contain current spending and replace every lira thus saved with a lira spent on capital formation. As has been noted, the resulting ripple effect will certainly have positive effects on both incomes and the productive base without causing new inflationary tensions. Of course, the complex process of the economic cycle may create less favorable conditions for implementing the plan. In any case, the plan will have to go hand in hand with rather than trail behind the policies or actions that the government may take to meet economic conditions in the next 3 years.

Economic policy action intended to increase employment in the South ought to be very structural in nature and not be obsessed by policies made to control the economic cycle.

The plan will also make it possible to have a policy that is less restrictive and more expansionist than the low profile that the international and Italian economies will show.

[Question] But will putting public money into capital investment necessarily bring about a drastic reduction in current spending?

La Malfa: The plan's economic policy has taken on the task of reducing the current public sector deficit from 5 percent of the gross domestic product to 2.5 percent, which is equal to tax receipts. Thus, there won't be a reduction in current spending, but it will grow less than national income. Freezing the percentage of the gross domestic product that goes into government spending in general would meet the need to stabilize the public budget's impact on the economy. It would also make possible a policy of tax justice by making general modifications and by recognizing the benefits of the struggle against tax evasion and neutralizing the fiscal drag on the taxpayers. The union has usually considered government spending as a lesser evil. Indeed, it has always called for a structural economic policy in principle, but in practice, it and some other political forces have asked that situations like that of the South be taken into account; there, transfer payments are a real and proper alternative to the policy of investment. This is the situation that a supply-side economic policy is intended to affect; in this context it will not be a two-sided policy but one that replaces government spending with spending for investment.

[Question] Sector planning is certainly the central point in the plan's proposed supply-side policy, but it certainly cannot be represented by the individual, largely defective plans that have been drawn up by the various ministries.

La Malfa: Sector plans are the synthesis of sector planning, but, as things stand, they are certainly not satisfactory for implementing a structural economic policy or meeting the objectives set by dthe planning document. Sector plans' means and ends will have to be made more evident if the individual ministers want access to financial resources. Clearly, we had better get together on the plan's present medium-term indications and reformulate sector planning.

[Question] What theoretical economic model is behind the supply-side theory of the present medium-term plan?

La Malfa: An orientation toward structural economic policy has always been present in the cultural tradition of republican economists. Just consider the objections we raised in the 60's against the center-left's economic plans, which were all dominated by worries about the business cycle and therefore amounted substantially to a policy of controlling aggregate demand. The dualistic nature of this country's economy makes vain and insufficient an economic policy based on the control of aggregate demand. The necessity of an economic policy based on supply has emerged in other countries and is shared by leftist economic thought; it became popular in 1973, the year when the developed world experienced the sharpest supply shock of the postwar period, i.e. the fourfold rise in oil prices.

This economic policy orientation stresses increased supply and productive capacity in light of the weakness of the present situation of capitalism.

[Question] What task will be assigned to the union?

La Malfa: The medium-term plan is a maximum effort to direct this country's economic policy in a general planning context to increase the rate of capital formation, broaden the productive base and reduce the rate of inflation. The increased capital investment to be achieved in the 3-year period is under government supervision. The union, with social forces in general, is expected to contribute to this process, of course, but especially to confront the problem of slow productivity increase. If there are positive results on this front, the sum of the two resultants will give this country a period of development and general prosperity.

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PSI DOCUMENT ON GOVERNMENT'S ECONOMIC PLAN

Rome AVANTI in Italian 23 Jan 81 p 8

[Article: A Plan Is Necessary for Jobs and Employment]

[Text] The Economic Commission of the PSI, [Italian Socialist Party], with the cooperation of pertinent work groups, has initiated an analysis of the 3-year plan, not only with respect to its general structure but to its various sectorial aspects as well. This document constitutes a first contribution to the plan's general aspects.

1) The economic policy of these last years has been following an implicit line of laissez faire, combined with occasional, remedial, subsidizing interventions.

The governments' economic policy during the decade of the 1970s has been inadequate in coping with the problems of crisis, growth, inflation, and unemployment based on a programatic design. This inadequacy has been "rationalized," by certain neoliberal positions, as a realistic pragmatism. Uncontrolled inflationary growth has been described as creative vitality of the economy and of the Italian society.

In practice, the Italian economy has been entrusted to the incontestable capacity for self-reliance and adaptability to the new conditions in the international market demonstrated by large sectors of our industry, characterized mainly by the presence of small and medium-sized industries. This capacity is not based, however, on the redirection of the productive forces toward vulnerable processes and sectors of the international competition, but on the highly precarious exploitation of conditions and market opportunities--internal and external. The vitality of these sectors contrasts with the crisis of others, most noticeable of which are the large public and private industries sustained and subsidized, without any upgrading efforts, by quite a substantial influx of public financial resources.

All this produces a "floating" state in our economy, on the one side supported by the market's "providence," on the other by public subsidy, under circumstances of high inflation and unemployment.

This situation may even last for a long time. The problem of the Italian economy does not lie in the risk of imminent catastrophic crisis, even though the economic outlook for the new year is becoming bleaker. The problem lies in the fact that it is becoming harder and harder to manage--in the sense that the control of its evolution escapes economic policy--and in the slow deterioration of the economic and social fiber caused by a chronic state of high inflation and widespread unemployment.

In any case, this process of social disintegration, which inflation, unemployment and subsidy policies are accelerating in our country, is unacceptable to socialists, who are committed to an economy leading to a balanced and moderate growth, to a more just distribution of wealth and income and, above all, to full employment.

These objectives and this strategy appear all the more relevant, moreover, in view of the necessity of launching a big project of reconstruction and economic revival of the earthquake areas within the framework of a total reenactment of the policy for the South.

2) The project for the 1981-1983 Three-Year Plan recently approved by CIPE [Interministerial Committee for Economic Planning], constitutes an attempt to recover a method of government of the economy completely neglected in the 1970s.

Under this aspect, in fact, the project has three fundamental merits:

a) that of recognizing the precariousness of the Italian economy, without sharing the too optimistic evaluations on the vitality and potential for spontaneous development of our productive system;

b) that of recognizing the necessity of a dual policy directed to the control of demand, above all through a rigorous handling of the public budget, and to the expansion of a productive capacity and employment, through the gathering of a substantive mass of autonomous investments;

c) that of resubmitting the necessity of reorganizing the administration sector in charge of promotion and coordination of policy planning.

3) If the basic nature of the plan appears to be desirable, the proposal falls short with respect to the formulation of the objectives and is lacking in the definition of the means capable of attaining them.

As far as the objectives are concerned, while the listing of goals (increase in the employment, development of the South) is laudable and easy to agree with, missing are reliable quantitative aims and, above all, a preliminary comparison with the probable, spontaneous trend of the economy.

Thus the judgment on the adequacy of the objective to increase by 500,000 the number of employed workers within the 3-year period, remains pending, for lack of elements regarding the macroeconomic hypotheses on the developing trend of the economic system and, therefore, on job offerings.

On the other hand, in spite of the objective conditions of uncertainty typical of the present domestic and international state of affairs, it seems unwise to neglect a macroeconomic reference picture (accounting for variables), useful for the attainment of indispensable verifications about the "means-objectives" relation, and about changes in course imposed by the changing of external conditions and by the behavior of business leaders.

As to the means, the plan's proposals must be further verified and analyzed due to the questions they raise, be it regarding interventions directed at controlling the widening of the public deficit, or be it regarding investment programs aimed at sustaining the development of productive capacity.

In fact, while the plan assumes as intermediate objective a substantial reduction in the current deficit of the expanded public sector, following a widely shared opinion, resons for serious perplexity are the choice of acting toward this end only on the side of current expenditures (the quota on the product of public revenues is, in fact, frozen at the present level), and also, as a consequence, the absence of operational indicators about the sectors and possible interventions for attainment of the necessary control of the flow of expenditures.

Under this aspect, giving up the formulation of a 3-year budget of public finance, which may verify the spontaneous trends of revenue and of public expenditures and measure the compatibility of new commitments in relation to interventions built in the plan, appears debatable.

In more general terms, regarding investment plans which should represent, in the plan's logic, the fundamental means to sustain the development of productive capacity in a noninflationary contex and of financial compatibility, the following observations can be made:

--the identified measures of intervention are not created by programs compatible with the objectives but by a series of demands brought forward by the administrations on the basis, mostly, of extremely vague motivations. And this just at a time when one should rethink in terms of redirecting all public effort toward the south, also in view of the catastrophe caused by the earthquake, through a radical revision of programs planned until now by the administrations.

On the other hand, the very nature of planning requires strategic definition of the actions to be planned in connection with the chosen objectives and, afterwards, comparison of these steps with the current activity of the administrations, for the precise purpose of applying to it the necessary changes of course. On the contrary, the framework of the three-year plan appears more pragmatic than programmatic, inasmuch as it selects and evaluates preexistent programs in function of their adaptability to the economic objectives to be reached.

Under this aspect, the same list of sectorial programs is substantially casual, since it originates from a collation of initiatives already existing within the administrations and not from an accurate indication of priorities consistent with the plan's objectives;

--as to the real and financial implications of the investment programs, gathered in the second part of the plan, the administrations' effective capabilities of profits and expenditures do not seem to have been taken into account. The programs are based, in large measure, on initiatives for which the legislative process is yet to be set in motion; it is not even a case, therefore, of authorizing the expenditures, with respect to which the probably frequency of allocations can be evaluated. Under these conditions, any evaluation directed at measuring the degree of compatibility of these interventions in relation to the framework of public finance and, as a consequence, at ascertaining the extent of the recourse to the international markets for financing that percentage of the expenditures which supposedly may not be financed internally, seems devoid of meaning;

--regardless of the stage of readiness of the single programs, the nature of the interventions required to face the most serious structural knots of the Italian economy will take a long time, which certainly will go beyond the 3-year horizon.

Under this aspect, the choice of an estimated period too short in relation to the magnitude of the structural and territorial problems of reinstating the balance, causes a basic ambiguity in the plan which suffers from the pretence of being at the same time a proposal for transforming and restructuring the economic and social system and a program of control of the economy in a short period of time.

It does not, therefore, seem realistic to attribute to the investment programs significant gains toward macroeconomic objectives within the next 3 years; a less ambitious and abstract verification of the impact of the investment programs on the 3-year period, particularly with regard to the creation of additional job opportunities, could show only modest and inadequate results.

A fundamental consideration emerges from this: the three-year plan does not solve the central question of the economic and social policy of future years, that is, of reconciling the actions aimed at the structural modification of productive resources from the standpoint of efficiency (which necessarily require long terms), with the implementation of extraordinary measures capable of creating an intermediate phase, that is, not short, and is characterized by a large supply of labor, particularly the young, and located in the South, which the market will not be in a position to absorb spontaneously.

It appears, therefore, essential that public actions be set and coordinated in an organic design, capable of handling the different short, medium and long-term needs, a true plan which assumes full employment as the main objective of interventions.

Under such conditions, today a programmatic framework inspired along the lines of the labor plan set forth some time ago by the socialist party, is more valid than ever if properly updated, articulated and elaborated on the basis of the new domestic and international economic conditions. The labor plan, which does not limit itslef to defining a picture of macroeconomic compatibility and to verifying, within such a picture, the feasibility of current government actions, but which may define, within the context of the essential objective of full employment, new new actions and new necessary reforms.

A labor plan is necessary, and not a generic plan of economic development:

A) because employment must constitute the fundamental objective of the democratic economic policy;

B) because an efficient program is unthinkable without close cooperation between government and trade unions who, in turn, must on this occasion, faced with a plan which adopts such rigorous political objectives, assume their full and concrete availability and responsibility;

C) because planning must promote a positive confrontation, but must also influence business orientation.

The labor plan, which can be carried out only on the basis of a renovation of the instruments of public intervention and the management of the economy should be articulated in three large programmatic operations:

A) a program to bring inflation under control and to heal the economy, involving:

--the progressive reduction of the rate of inflation by means of rigid revenue policies;

--the elimination of subsidies for business and families and the formation of internal and external margins for a strong revival of the investments;

B) a program for employment and labor, involving:

--the reestablishment of margins of mobility;

--the creation of a labor agency directly in charge of excess labor force to be employed in activities of development and public works;

--the development of an active labor policy: continuing education, information, job placement, contract elasticity, etc.;

--the implementation of a special program of public investments for the earthquake areas;

C) a long-term investment program for the overhaul of industry and the economy, involving:

--actions directed toward the reduction of the burden on the balance of payments, especially in the energy and agricultural-food products sectors;

--actions directed toward the development of productive activities (industry and services) in the South;

D) actions directed toward the development of new technology sectors (electronics, telecommunications, etc.);

E) actions directed toward sectors in crisis (chemical, metal, auto industries);

F) changes concerning:

1) the management of the economy through greater fertility of the ministries;

2) the reform of the administration;

3) the reform of the system of government interventions;

4) the reform of the special intervention for the South;

G) a policy of major social infrastructures and services (housing, school, transportation, redesignation of territorial borders, ecological balance).

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FORMER BANK OF ITALY GOVERNOR ON CREDIT RESTRICTIONS

Rome LA REPUBBLICA in Italian 3 Feb 81 p 27

[Interview with Dr Guido Carli, former governor of the Bank of Italy, by Eraldo Gaffino: "'These Restrictions Come Too Late': Guido Carli Has a Plan To Save the Lira"; interview in Rome, date not given]

[Text] Rome--[Question] Dr Carli, what are the reasons for these violent oscillations in the exchange rate of the lira?

[Answer] It is impossible to understand the causes of the lira's oscillation relative to the dollar without reference to oscillations in the exchange rate of the mark. In the period when Community currencies oscillated relative to the dollar, before and after the establishment of the EMS [European Monetary System], the mark's exchange rate fluctuated between a low of 1.73 and a high of 2.70 marks to the dollar. If we suppose that the lira-mark exchange rate remains about what it is, 475 lire to the mark, the dollar would hit a low of 807.50 lire to the dollar and a high of 1,282.50 lire to the dollar on our market. If we imagine that the pendulum swings the entire distance between 2.70 (the high) and 1.73 (the low) and then back to a high of 2.70, this would be the greatest possible oscillation between the lira and the dollar, provided the lira does not change relative to EMS currencies.

Under the first petroleum shock, the FRG's balance of payments showed a surplus; under the second shock, it went into the red and is still there. In the first case, dollars were being exchanged for marks; in the second, marks are being exchanged for dollars. The difference in interest rates adds to it.

[Question] Is there, then, a flow of capital taking place that has underlying causes and will last a long time?

[Answer] When institutional assets make it possible to predict with an acceptable margin of error the variations in exchange rates, the difference between interest rates explains the most relevant effects on the short-term movement of money. Interest rates on short-term financial activities based in the United States, when these rates are higher than in Germany, induce commercial banks and their clients in Germany to acquire dollars in exchange for marks and invest them in the American market. When dollars are given up by the Bundesbank, the capital position of both countries remains unchanged. American statistics show that the short-term U.S. foreign debt is diminishing with central banks and is increasing with commercial banks and their customers. Private credit is taking the place of public credit.

Inflation in Germany is less than half that in the United States, measured by consumer prices. Labor costs are higher in Germany, but productivity is rising faster than in the United States. If a German decides to convert his cash from marks into dollars, he helps increase the demand for dollars. Unless the Bundesbank acts, the mark goes down relative to the dollar and contributes to depressing the other currencies tied to it under the EMS. The depression of the Community's currencies in terms of dollars forces the member countries to absorb inflation in proportion to the amount of imports paid for in that currency; Italy suffers more than any others.

[Question] Aren't there limits between strong and weak currencies any more?

[Answer] It is a line that has become uncertain, and belonging to one classification or the other is ephemeral, and going from one category to the other often has little to do with the underlying conditions of the economies of the countries issuing the money in question. It is said that the mark is weak and the franc is strong. Yet both Germany and France are laboring under large balance of payments deficits. The rate of inflation in Germany is less than half that in France. Hourly labor costs in Germany are higher, but productivity is higher, too. Interest rates in Germany are lower than in France, but in real terms they are higher.

[Question] Has economic disparity among the EMS countries then caused the failure of this monetary agreement?

[Answer] When the EMS was set up and its obligations accepted, a more stringent obligation was thought to be introduced, one that the monetary authorities should have avoided: to contain inflation within each country near the level of inflation in the other countries. This obligation has not worked, and rarely have the divergences been as great as experienced under the EMS agreement. Given great divergences in inflation rates, monetary authorities' freedom of action is limited, and pressure is felt increasingly to put policies into effect that are irreconcilable with development and productive activity. Foreign and domestic protectionist temptations reappear, and administrative measures are called for to support exports. This pushes for more administrative discretionary powers.

Exchange Policies Need To Be Coordinated

[Question] But Italian governments are, for the most part, responsible for this failure on the part of the EMS. In 1979 and '80, very little was done to combat this country's inflation.

[Answer] When the plan was presented in September 1979, an announcement was made that the Italian authorities intended to conduct a moderately expansive monetary policy because they were convinced that a downturn in economic activity was imminent. With various margins for error, everybody agreed with this forecast.

In about mid-1980, the authorities announced a group of actions intended to reduce the balance of payments deficit, protect exchange-rate stability, maintain and, possibly, increase employment, and, out of concern for the development of the Italian South, temper the consequences of localized crises. Discussion of this action is taking place in an emotional atmosphere, and dissenters are being accused of belonging to the party of crisis, inflation and devaluation. Influx into the Bank of Italy's

reserves between June and September is being pointed to as a sign of the provisions' effectiveness. Others have insisted on the necessity of monetary restriction.

[Question] Under these conditions, was it necessary to have a new credit squeeze? What do you think of Minister Andreatta's action?

[Answer] You have to give the authorities credit for courage in deciding for monetary restrictions under present conditions, aware as they are of the criticism that has been leveled against them. In general, the margins of credit expansion set in Italy have remained largely greater than those in effect in most of the industrialized countries; points at which money might have left the country have been opportunely minimized; and the limit on the expansion of credit money is a partial one. In general, there are restrictions without excess.

[Question] Before these measures were taken, though, the government and its economic ministers had given special emphasis to the part of our reserve that would hinder any speculation against the lira. Now, however, foreign indebtedness is very high and the reserve serves only to cover our debts.

[Answer] On the basis of figures published in the supplement to the BOLLETTINO DELLA BANCA D'ITALIA, it can be deduced that official reserves net credit agencies indebtedness included at the end of November 1980 the only gold component made up of gold in the Bank of Italy and the UIC [expansion unknown] and that deposited in the European Fund to back issuance of accounting units (ecus). Convertible gold came to 9.656 billion lire, and credit agency debts, to 13.440 billion lire. No dramatic consequences should be deduced from these figures, because access to international credit continues to be easy in the present situation. It does appear, though, that room for maneuver has been greatly narrowed.

[Question] There is already a debate going on concerning the effects of this latest production squeeze. What is your opinion?

[Answer] If inflationary forces and their means of propagation inherent in automatic wage indexation are not attenuated, and if the authorities remain faithful to the policy indicated, credit restriction cannot have an adjustment effect without causing a decline in production.

The monetary policy followed in the United States is intended to slow the creation of money and will necessarily show up in continued high interest rates, and this cannot fail to have ripple effects. Absent a coordinated policy within the Community and between the Community and the United States, exchange rates will be hit by differences in interest rates.

Many Contradictions in Italy's Choices

[Question] What has to be done to restablize monetary order in the EMS?

[Answer] The necessity of coordinating exchange policies and their repercussions on the surplus and deficit in the balance of payments is demonstrated by the consequences caused by its absence in the present situation, which is characterized by the structurally profitable oil exporting countries opposed to the rest of the world, which is structurally deficitary. Policies regulating internal demand and intended to balance or reduce the deficit in the balance of payments should be replaced with policies

that accept and coordinate the imbalance. Initiatives undertaken by individual countries with the intention of eliminating or reducing imbalances are pushing them off on weaker countries and producing a succession of actions and reactions that have the ultimate effect of lowering the level of economic activity. It would not seem too far-fetched to ask:

(1) that the structure of exchange rates between EMS currencies, the dollar and EMS currencies, and the yen and the dollar be made a function of the desired distribution of balance of payments deficits caused by oil profits;

(2) that once the exchange-rate structure is set up, the system be defended by concerted central bank interventions without administrative limitations on short-term money movements caused by differences in interest rates.

In the last 20 years, periods have alternated between veneration of the dogma of fixed exchange rates, the dogma of floating exchange rates, and the dogma of regionally fixed exchange rates, i.e. within the EEC. One belief seems as good as another, and it is hard to show by rational argument that one is better than another. The present system is vitiated by contradictions, and the harder they are to eliminate, the more they will restrict maneuvering room for policies intended to foster stable development. Obviously, a sermon on this subject cannot conclude without inveighing against public expenditures and their excesses, but space does not permit it.

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OZAL BELIEVES HIGHER INTEREST BENEFICIAL

Istanbul DUNYA in Turkish 2 Feb 81 pp 1,5

[Text] Ankara, ANKA -- Deputy Prime Minister Turgut Ozal has said that the higher bank interest rates will have an anti-inflationary effect.

Deputy Prime Minister Ozal said in a statement to ANKA [Ankara Agency] that freeing interest rates was an important part of the stabilization program. "Our goal is to get industry and Turkish banking straightened out and raise their productivity," he said.

Turgut Ozal noted that banks have too many branches and personnel and said the following in his statement:

"Raising interest rates will increase bank deposits at the same time as it collars inflation. Thus the cost to the banks of the credit they dispense on the basis of their deposits and other resources will decline. The relationship of the banks' general credit expenses to credit is presently around 15 percent. The world rate is 2.5 percent.

"Increasing bank deposits will reduce the proportion of general expenses."

Deputy Prime Minister Turgut Ozal pointed out that the effect on credit costs of raising interest on deposits was normal and continued as follows:

"Credit was nonexistent when we placed the stabilization program in effect. No credit is worse than high credit. If there is no credit, banks give black market credit.

"Moreover, raising credit costs also prevents speculation. Nobody can build stocks with credit at these prices. Moreover, businesses institutions are forced to move toward increasing assets. Last year they increased their reserves by more than 100 billion liras. Where is this money coming from? The foreign exchange which had fled the country before is coming back. Gold is breaking up. Money formerly invested in gold is being pried loose.

"If some facility is obtained through taxation by the change in statements of assets, assets increases of the businesses institutions will pick up speed."

Deputy Prime Minister Ozal spoke of the effect on investments of the increase in the price of credit, saying, "Investment decisions are now going toward profitable projects."

What Do Brokerages Say?

Meanwhile, the interest war that broke out in the market when the banks broke the gentleman's agreement brought various reactions on the money market.

Brokerage directors maintained that the interest war would damage the economy, contending that the banks would not be able to compete with them. Capital and Moveable Goods Marketing Corporation (SERPA) Director Ilhan Izibelli maintained that breaking the gentleman's agreement among the banks was a matter of concern from the standpoint of the economy. He said that when the banks raised their interest rates, people who would have got credit from the banks turned to the brokerages.

Banker Kastelli Director Ertan Ozdemir, meanwhile, maintained that the banks were hurting themselves by breaking the gentleman's agreement and contended that the banks would not be able to compete with the brokerages.

Banker Kastelli Director Said:

"It is futile for the banks to break the gentleman's agreement and start a ruthless war with each other. It was the banks who started a war among themselves, not the brokerages. The Turkish economy will be the loser in this war.

"The brokerages are dispensing higher interest than the banks right now. While the banks are giving gross interest at 37.5 percent on demand deposits today, we brokerages are giving a net 33 percent interest to demand depositors. The banks are giving 33.5 percent net interest on 6-month deposits; we are giving 35 percent on 6-month deposits. The banks are giving 37.5 percent on 1-year accounts; we are giving 41 percent net interest. Therefore, our present income rates are higher than what the banks are giving right now.

"With the breaking of the gentleman's agreement in Turkey, a big contest was really started. This race is primarily between the banks, but we are trying to run in it, too, and we are determined to do it. Our board of directors is going to meet and work out new income rates, which will then be made public. I would like to point out in this connection that we will be running a 50 million-lira real estate contest for depositors who make deposits as of 1 February.

"After the banks start applying high interest, they will automatically raise their credit interest. And this will put a strain from the standpoint of costs on the industrialists and merchants who get credit. Present costs are around 50 percent. It is hard to see how the industrialist and the merchant will get out from under these new interest limits. It does not seem, either, that the banks would have the resources to pay this high interest they are proposing, because many banks have hundreds of branches. Their personnel costs are too high."

SERPA Director's Statement:

"Gentleman's agreements, like deposits, are based on interests and that is why these agreements are always short-lived. What is happening at the banks had been

tried before on the money market and was broken by the strongest of the brokerages. This time, the situation is reversed. That some of the commercial banks and especially a state bank -- which escaped everyone's notice -- would allow the sale of certificates of deposit at their interest rates through brokerage channels is a clear statement that this agreement had long since lost its validity. While interest limits were rising, the people who needed credit were being put in a tight spot. And this will put the economy of the nation in a tight spot. I see this as a matter of concern from the standpoint of the economy.

"It is too early for us to go into a new interest increase while the accounts of the companies which will bear the brunt of the problems are being made on the money market.

"If it is a contest that has been begun, it is necessary to discuss whether the outcome would reach dimensions to threaten the national economy and the security of savings.

"We brokerages are leaving the banks far behind as to net interest already. Moreover, the depositor is both getting high interest and being given a guarantee of his deposit."

Former Finance Minister Ziya Muezzinoglu [last Ecevit cabinet] said that raising bank interest would create cost inflation and contended that "the state must use the power granted it by law to ensure that resources are used for national priorities."

Muezzinoglu pointed out in a statement to THA [Turkish News Agency] that despite the hypothesis that freeing interest rates would increase savings and distribute resources better, this had not proved true and that the increase rate in savings was less than in 1979.

Muezzinoglu maintained that this situation had created stagnation in the economy and said that a climate of complete disorder and anarchy had been created in this area after the last rise in bank interest.

Celiker: Banks Must Be Put in Order

Murtaza Celiker, a member of the Istanbul Chamber of Industry [ICI] Assembly, said of the banks decision to raise interests rates again: "The 1 July 1980 decree releasing interest limits just went into effect today." Celiker stated that the banks "got the state banks to join them" to conclude an artificial "gentleman's agreement" and are taking implementation of the decree too far.

ICI Assembly member Celiker said in a statement to a THA reporter that "the banking sector has been steadily taking for years, without giving the Turkish economy anything." "Realistic diagnoses and policies are needed to make this sector a sector which creates resources for our development," he said. Describing recent developments as "a fight without ring or referee in which the banks' squaring off against one another and the state is the best expression of the distorted structure of the banking sector," Celiker noted that he had a number of proposals for the banking sector.

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COMMON DEFENSE AGREEMENT RATIFIED

Istanbul CUMHURIYET in Turkish 2 Feb 81 pp 1,6

[Text] Ankara, CUMHURIYET BUREAU -- The Defense Cooperation Agreement and Supplementary Agreements signed on 29 March 1980 between Turkey and the United States were ratified by the Council of Ministers and published in yesterday's RESMI GAZETE. The 18 implementing supplements of the agreement, which was published in English and Turkish, also appeared in the RESMI GAZETE. The basic agreement and its annexes were ratified by the Council of Ministers and will not be passed separately by the National Security Council, it was learned.

The Defense Cooperation Agreement [DCA] provides for the economic cooperation contained in article 2 of the NATO Treaty and for bilateral cooperation in matters of defense cooperation contained in article 3. The implementing agreements designate the U.S. bases in Turkey and state that Turkey is permitted to join the United States in common defense measures and also that Turkey will permit U.S. administrative and support organizations and activities outside these installations.

According to the agreement annexes, the United States is permitted access to the following Turkish Armed Forces installations for participation in common defense measures:

--Sinop (electromagnetic tracking)
--Pirinclik (radar warning, satellite tracking)
--Incirlik (air operations and support)
--Yamanlar (Izmir), Sahintepe (Gemlik), Elmadag (Ankara), Karatas (Adana), Mahmurdag (Samsun), Alemdag (Istanbul), Kurecik (Malatya) (communications ground facilities)
--Belbasi (seismic data collection)
--Karaburun (radio traffic)

According to the published agreement, technical activities and maintenance services will be conducted jointly by Turkish and American personnel at the installations whose primary purpose is data collection, communications or radio traffic. All intelligence information, including processed data obtained from "intelligence gathering" facilities in Turkey, will be shared by the two governments through arrangements to be devised jointly by the competent technical authorities of the two sides.

The U.S. government will appoint an officer at each facility who will serve in the capacity of U.S. Forces Commander and, at the same time, as the single point of contact with the Turkish Facility Commander. The Turkish Commander and the U.S. Commander will be responsible for their own forces and the equipment and materiel used by these forces and will be jointly responsible for the conduct of activities in accordance with this agreement. The U.S. flag may be flown over the U.S. forces headquarters at the installations.

In accordance with the purposes of the agreement, permanent facilities built by the United States on land which Turkey allocates to the U.S. government will belong to Turkey and will revert to Turkey upon expiry of the agreement. Operating and maintenance costs and construction and modernizations costs at the facilities will be borne by the United States, and each of the sides will pay its own personnel costs.

Aircraft and Ships

Turkish arrivals and departures of U.S. rotation fleet aircraft permitted to be "located" at Incirlik in support of NATO defense plans, their support units and of aircraft supporting activities which come under the terms of the agreement will be conducted in accordance with the implementing agreements. Aircraft supporting activities under agreement may land at specified military and civilian airports, and supply ships acting in connection with these activities may enter Turkish ports by permission of the government. Turkish arrival and departure and inter-facility travel of U.S. aircraft will be governed by provisions appropriate to this agreement.

The agreement, which retains intact the terms of the Montreux treaty, points out, moreover, that there may be no infringement of Turkey's natural right to take the necessary restrictive measures, in accordance with international law, in emergencies involving the national security. It is also pointed out in the basic agreement that the scope of defense cooperation between the two nations will be bound by the constraints arising from the NATO treaty.

Terms and Expiry

The DCA runs for 5 years and it is stated: "This agreement and the supplementary agreements attached to it will be valid for a period of 5 years. If neither of the sides reports the intention to terminate this agreement 3 months prior to the expiration of this first 5-year period, it will continue to remain in effect by agreement of the sides for periods of 1 year each until terminated by means of one of the sides' giving cancellation notice 3 months prior to expiry in each subsequent year."

If one of the sides deems it necessary, it may request review of the agreement and, if no results are obtained within 3 months of these discussions, may terminate the agreement or the offending supplementary agreement by giving 30 days' written notice.

Defense Aid

Defense aid which the United States will provide to Turkey is stated as follows in the DCA:

"As appropriate to the third article of the defense and economic cooperation agreement between Turkey and the United States, the government of the United States recognizes the need of the Turkish Armed Forces for a modernization and expansion program, and, for the purpose of increasing trust and cooperation between the two governments, the government of the United States will undertake to make every effort possible to provide defense support (defense materiel, services and training) to the government of the Republic of Turkey and to provide military aid to Turkey for achieving the goals of the modernization and maintenance program, which includes a 5-year procurement program, under the best conditions possible."

Turkish-American Defense Support Committee

The United States will set up a joint Turkish-American Defense Support Committee in Ankara to provide Turkey's defense support needs from U.S. resources. The joint committee will be composed of high-level Turkish and American representatives and will have joint chairmen at the rank of general from each of the two nations.

The joint committee will implement the 5-year procurement program and will recommend the annual amounts of military aid Turkey will receive from the United States.

The United States will, according to the agreement, provide Turkey surplus defense materiel and will try to give military equipment by means of lend-lease. The U.S. government will also provide Turkey military aid depending on the annual authority and appropriations in American security assistance laws. The United States will give high priority to the delivery of defense materiel to Turkey and also will sell the defense materiel to be provided by way of cash payment or military sales at the lowest price allowed by U.S. law.

Annexes

According to the annexes of the DCA: Turkey and the United States will prepare defense production projects and these projects may be undertaken by Turkey alone, as Turkish-U.S. coordinated production projects or as multilateral projects with the participation of friendly nations. According to the agreement, both governments will give highest importance to improving standardization of interalliance equipment and services. Moreover, the agreement lists projects taken up in partnership between the two nations. These projects are antitank ammunition production, fuse production, sustained vilocity gunpowder and explosives production, production of various types of rockets, development of aircraft renovation capabilities and development of installations, building a modern frigate and a tank modernization program.

The sidnatures under the DCA and supplementary agreements signed with the United States on 29 March 1980 are those of Hayrettin Erkmen, then foreign minister, on behalf of the government of the Republic of Turkey and U.S. Ambassador James Spain on behalf of the United States. The implementing agreements, however, are signed by U.S. Ambassador James Spain and, on behalf of Turkey, by Lt Gen Necdet Oztorun, General Staff planning program chief.

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ILICAK EXAMINES BACKGROUND, RAMIFICATIONS OF TORTURE

Istanbul TERCUMAN in Turkish 17 Feb 81 pp 1, 12

[Editorial by Nazli Ilicak]

[Text] There has been no end to the accusations of torture committed in Turkey. The 12 March government, and afterwards the National Front, the Ecevit government, and finally the Demirel minority government were in no way able to extricate themselves from such charges.

It will suffice to recall the later stages since the writings and words concerning the counter-guerrilla(!) activities of 12 March are still very fresh in our memories. Turkey in every period has been regarded as a state that tortures the accused. Amnesty International is chief among organizations that besmirch our country--without doubt, involuntarily. We want to present the manner by which this organization relates the events by citing its 1977 report: "The violence that has continued in Turkey for 2 years stems in large measure from rightist organizations. There were 600-700 political prisoners in Turkish jails in 1976. As far as is known all of them were leftist activists."

In the same report, Amnesty International relates as another sign that human rights in Turkey are being trampled is the police beating of a student named Pasa Guven.

Pasa Guven was arrested carrying a weapon during the Site Yurdu clash on 7 January 1977. In this connection it was determined that he had wounded two persons. CUMHURIYET gave banner coverage to the event for 3 straight days. The paper reported in bold type that Guven had gone into a coma. When Guven left the hospital, however, it was reported (MILLIYET of 11 January) that he had not been beaten and was not seriously injured.... Pasa Guven had perhaps been roughed up by the police but it is certain that he was not in a coma.

Who was this Pasa Guven? He was the chairman of the IYOD (Istanbul Higher Education Association), which was a front for DEV-GENC (Turkish Revolutionary Youth Federation). When DEV-GENC split in two, becoming DEV-YOL (Revolutionary Way) and DEV-SOL (Revolutionary Left), he remained in the DEV-SOL wing. He became a member of the three-man Central Committee. Pasa Guven, who served as one of the key leaders of an organization that orchestrated the deaths of many persons--including Nihat Erem--remains free. Shortly before 12 September, Pasa Guven went to Germany to reorganize DEV-SOL.

Indeed, the fact that the leader of a major terrorist organization was roughed up by the police threw Amnesty International into action--naturally at the instigation of local communists.... Torture is still being discussed today. The communists, who have infiltrated even into the Council of Europe, are gearing their propaganda to isolate Turkey. Is torture occurring in Turkey today? If it is, does it exceed what was said to have taken place in other periods? We cannot answer in the affirmative or negative because we have neither the documents nor the evidence. It will suffice for us simply to document the fact that such charges have been put forward in every period and then leave the judgments to the reader. Here are news reports and commentaries from various dates:

April 1978:

--RPP Interior Minister Ozaydinli: "We are investigating rumors of torture. We are assessing every report in this regard. Our government opposes such inhuman, primitive practices."

--The deputy of a NAP group left a bloody shirt at the door of the Prime Ministry.

--Idealists during a press conference said that they were tortured.

--MILLIYET commentator Orsan Oymen: "We oppose torture no matter who commits it or who suffers it. Attention should be paid to NAP leaders' accusations of torture. A sound investigation should be conducted by tackling the cases that have emerged."

--HURRIYET commentator Cuneyt Arcayurek: "Although we regard torture as the handy work of 12 March, it is shouted that citizens are being tortured today in the legal system, which is said to work in all cases, at the police station, and at the doors of the prosecutor's office. A 20-year-old youth named Muharrem Beylan, who came by my motel, said, 'They split my lower lip with blows. They struck my back. The marks from their clubs are still visible...' His lip had been split. The trails of thick, red blood were visible on his back. When he went to the hospital to have a report made out on his condition, the doctors swore at him not to make mention of it. As accusations of torture are in the limelight, would not the quickest way to the truth be for the prime minister to be inclined in that direction, for him to send a team of impartial doctors and lawyers to these places and open an investigation in order to clear up incidents and clear officials? Reportedly the feet of Edip Ozbas, the son of NAP deputy Yusuf Ozbas, swelled and his mouth and tongue were injured after his arrest in Maras. I say 'reportedly' because I have not seen Edip Ozbas. The official report is in his father's possession. Three doctors from the Maras State Hospital have reportedly verified the injuries on Edip Ozbas' body."

May 1978:

--Three JP parliamentarians confirm that Edip Ozbas was tortured.

--Demirel: "Accusations of torture have reached the absolute limit. After tomorrow there will be no interpellation on this matter."

--RPP senator Niyazi Unsal: "Incidents of torture are continuing as before."

--Turkes submits documents to Koruturk on NAP members who have been tortured....

Ecevit left, Demirel came. Accusations of torture persisted:

May 1980:

--The Istanbul Bar Association announced: "Torture has become an inseparable part of interrogation. The bar has distributed to members of the press photos of persons asserted to have died by torture."

--Apaydin said: "Incidents of torture have assumed grevious dimensions."

June 1980:

--Ecevit: "People in Kayseri are being murdered by incessant torture."

--Forty-three RPP parliamentarians want an Assembly investigation of torture. The parliamentarians said, "An investigation is mandatory in order to display to the public the torture methods that a primitivist administration is using on our people."

--RPP deputy Mustafa Gazalci said that in Denizli the governor had opened an investigation of the Chief of Police who employed torture but that the governor was removed by the Demirel government.

--Ustundag at a press conference presents torture victims before member of the press.

Although accusations of torture have appeared in every period, it is the first time that the Council of Europe has paid any attention and reported on the matter. However, from the Turkish perspective, we believe that nothing has changed--at least regarding the accusations. These accusations persist through the years with the same vehemence. But certain European doubts associated with democracy's suspension have become plain: Because Turkey is viewed with suspicion, accusations of torture are being taken seriously. We ought not forget that democracy--especially in Europe--is the greatest proof of reliance and a magic key that opens any door.

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BANKS RAISE INTEREST RATES

Istanbul MILLIYET in Turkish 3 Feb 81 p 10

[Text] MILLIYET NEWS CENTER -- While the war between banks rages with some banks using new ways to attract savings and some banks announcing that they "give the highest interest" without specifying rates in their advertisements, the brokerages have joined the fray and raised their interest rates, too.

Moreover, the banks have set up accounts for monthly interest payments but are watching each other closely on this, it was learned.

Banks

When the banks raised annual interest rates to 50 percent gross, some brokerages also acted immediately to raise interest rates. Fintas went the banks one better and announced that it would give 56 percent gross and 42 percent net on 1-year time deposits.

Banker Kastelli announced that it would raise interest on 1-year and time deposits from 41 percent net to 45 percent net.

Genborsa, Meban, Eczacibasi Investments and OYAK Investments are studying the matter, but have not yet made any announcement, it was learned.

Meanwhile, the newly formed Borsas came out with a portfolio comprising private sector bonds and shares and state bonds.

Brokerages

The Istanbul Bank made an announcement yesterday introducing a new method to banking. "Mesan," which is attached to the Istanbul Bank, will give savings account holders the equivalent of interest in consumer goods or real estate. According to the system introduced, a person who wants to buy any consumer item or real estate will deposit his money in the Istanbul Bank and Mesan will deliver to that person the item or real estate he was going to buy. The money will stay in the bank for 2 years and no interest will be paid. In this way, goods or real estate wanted are purchased by means of the interest on savings being paid in advance.

Meanwhile, Hisarbank will also announce a new method next Thursday, it was learned. According to leaked reports, Hisarbank has developed a system to guarantee money deposited in the bank against losses due to inflation.

The banks are keeping close checks on whether the others raise their interest above 50 percent, but Demir Bank, Pamuk Bank, Akbank and Imar Bank have not given interest rates in their advertisements, stating only that they "continue to give the highest interest."

The banks wishing to limit interest to 50 percent, meanwhile, will again bring the topic to the banks' general conference to be held in Istanbul on Friday, 6 February and will request oversight of the banks, it was learned. According to leaked reports, certain banks, including such as the Labor Bank, the Agricultural Bank and the Peoples Bank of Turkey, will request that the matter be conveyed once more to the government.

Credit Interest

While the banks and brokerages' interest race goes on, some banks have also revised their rates on credit interest. According to ANATOLIAN AGENCY reports, Anadolu Bank, Osmali Bank and the Turkish Imar Bank have raised the rates on short- and long-term export credits and other medium- and long-term credits by 7 to 13 points.

Also, Building and Credit, Akbank, Turkish Commercial, Guarantee and the Istanbul Bank have all raised credit interest rates 5 points to parallel the action taken by the Labor Bank.

Bank Union to Meet

The Banks Union will meet today at 1030 hours, chaired by Central Bank President Osman Siklar. The banks are expected to be cautioned one last time not to exceed the 50 percent interest rate.

The Banks Union agenda contains a draft amendment of the Banks Law, a draft amendment of the principal regulation and bank requests to open new branches. In this connection, the Turkish Peoples Bank will request cancellation of the "State Guarantee of Deposits" article in the Banks Law, it was learned. This article provides for the guarantee by the state of 50 percent of deposits in the banks. That is, if the bank collapses, the customer may get 50 percent of his money from the state.

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